TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1962

No. 80

MARK E. SCHLUDE, ET AL., PETITIONERS,

vs.

COMMISSIONER OF INTERNAL REVENUE

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

PETITION FOR CERTIORARI FILED MARCH 15, 1962
CERTIORARI GRANTED MAY 28, 1962

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1962

No. 80

MARK E. SCHLUDE, ET AL., PETITIONERS,

vs.

COMMISSIONER OF INTERNAL REVENUE

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

INDEX

RECORD PRESS, PRINTERS, NEW YORK, N. Y., AUGUST 17, 1962

[fol. 1]

IN THE TAX COURT OF THE UNITED STATES

General Docket

Mark E. Schlude, 459 Beverly Drive, Omaha, Nebraska, Petitioner,

Docket No. 69,591 vs.

Commissioner of Internal Revenue, Respondent.

Appearances for Petitioner:

Name: Robert Ash, Esq.,

Address: 1921 Eye Street, N. W., Washington 6, D. C.
Carl F. Bauersfeld, Esq., Einar Viren, Esq.

Docket Entries in Docket No. 69,591

Date Month	Day	Year	Filings and Proceedings
Aug.	29,	1957	Petition filed: Fee Paid 8/29/57.
Aug.	29,	1957	Request by petr. for trial at Omaha, Nebraska. Granted Sept. 11, 1957.
Oct.	4,	1957	Answer by resp. filed.
Dec.	24,	1957	Notice of trial 3-24-58 at Omaha Neb.
Mar.	4,	1958	Motion by petr. to consolidate Dkt. Nos. 62109, 69591, 69593. Granted 3-24-58.
Mar.	6,	1958	Notice of hgr. 3-24-58, Omaha, Nebr., on petr. motion.
Mar.	24,	1958	Trial before J. Black at Omaha, Nebraska, Joint Oral motion to consolidate. Granted (62109, 69591; 2, 3). Stipulation of Facts filed at trial. Appearance of Carl F. Bauersfeld and Einar Viren, Esq., filed. Briefs due June 23, 1958. Reply Briefs due July 23, 1958. Submitted to J. Black.

[fol. 2].

Date Month Day Year	Filings and Proceedings
	Under Submission.
Apr. 8, 1958	Supplemental Stipulation of Facts.
Apr. 17, 1958	Transcript of Proceedings 3-24-58 filed.
June 20, 1958	Motion by resp. for extension of time to July 7, 1958, to file brief. Granted 6-23-58.
June 23, 1958	Motion by petr. for extension of time to July 23, 1958, to file brief. Granted 6/23/58.
July 23, 1958	Brief for Petr. filed.
July 24, 1958	Motion by resp. for extension of time to Aug. 7, 1958, to file brief. Granted 7-25-58.
Aug. 5, 1958	Brief for Resp. filed.
Sept. 3, 1958	Motion by petr. for extension of time to Oct. 6, 1958, to file reply brief. Granted 9-4-58.
Sept. 3, 1958	Joint Motion to correct the transcript. Granted 9-5-58.
Sept. 4, 1958	Reply Brief filed by Resp.
Oct. 3, 1958	Reply Brief filed by Petr.
June 18, 1959	Motion by petr. for leave to call the Court's attention to certain cases. Granted 6-19-59.
Sept. 28, 1959	Findings of Fact and Opinion filed Judge Black. Decision will be entered under R. 50.
Nov. 19, 1959	Motion by resp. for revision of order "No obj. by petr." Granted 11-23-59.
Nov. 23, 1959	Order, that resp. motion is Granted and the Findings of Fact and Opinion of Sept. 28, 1959 is revised.
Nov. 23, 1959	Decision entered, Judge Black.
	Appellate Proceedings.
Feb. 3, 1960	Petition for Review by U. S. Ct. of Ap. for 5th Cir. filed by petr.
Feb. 3, 1960	Proof of Service of pet. for rev. filed.
Feb. 11, 1960	Agreed Designation of Contents of Record on Rev. filed.

[fol. 3]

IN THE TAX COURT OF THE UNITED STATES

General Docket

Marzalie Schlude, 459 Beverly Drive, Omaha, Nebraska,
Petitioner,

Docket No. 69,592 vs.

Commissioner of Internal Revenue, Respondent.

Appearances for Petitioner:

Name: Robert Ash, Esq.,

Address: 1921 Eye Street, N. W.,
Washington 6, D. C.
Carl F. Bauersfeld, Esq., Einar Viren, Esq.

Docket Entries in Docket No. 69,592

Date Month Day Year	Filings and Proceedings
Aug. 29, 1957	Petition filed. Fee Paid 8/29/57.
Aug. 29, 1957	Request by petr. for trial at Omaha, Nebraska. Granted Sept. 11, 1957.
Oct. 4, 1957	Answer by resp. filed.
Dec. 24, 1957	Notice of trial 3-24-58 at Omaha, Neb.
Mar. 4, 1958	Motion by petr. to consolidate Dkt. Nos. 62109, 69591-69593. Granted 3-24-58.
Mar. 6, 1958	Notice of hgr. 3-24-58, Omaha, Nebr., on petr. motion.
Mar. 24, 1958	Trial before J. Black at Omaha, Neb. Joint oral motion to consolidate. Granted (62109, 69592; 2, 3). Stipulation of Facts filed at trial. Appearance of Carl F. Bauersfeld and Einar Viren, Esq., filed. Briefs due June 23, 1958. Reply Briefs due July 23, 1958. Submitted to J. Black.

[fol. 4]

Date Month Day Year	Filings and Proceedings
	Under Submission.
Apr. 8, 1958	Supplemental Stipulation of Facts.
Apr. 17, 1958	Transcript of Proceedings 3-24-58 filed.
June 20, 1958	Motion by resp. for extension of time to July 7, 1958, to file brief. Granted 6-23-58.
June 23, 1958	Motion by petr. for extension of time to July 23, 1958, to file brief. Granted 6/23/58.
July 23, 1958	Brief for Petr. filed.
July 24, 1958	Motion by resp. for extension of time to Aug. 7, 1958, to file Brief. Granted 7-25-58.
Aug. 5, 1958	Brief for Resp. filed.
Sept. 3, 1958	Motion by petr. for extension of time to Oct. 6, 1958, to file reply brief. Granted 9-4-58.
Sept. 3, 1958	Joint Motion to correct the transcript. Granted 9-5-58.
Sept. 4, 1958	Reply Brief filed by Resp.
Oct. 3, 1958	Reply Brief filed by Petr.
June 18, 1959	Motion by petr. for leave to call the Court's attention to certain cases. Granted 6-19-59.
Sept. 28, 1959	Findings of Fact and Opinion filed Judge Black. Decision will be entered under R. 50.
Nov. 19, 1959	Motion by resp. for revision of order "No obj. by petr." Granted 11-23-59.
Nov. 23, 1959	Order, that resp. motion is Granted and the Findings of Fact and Opinion of Sept. 28, 1959 is revised.
Nov. 23, 1959	Decision entered, Judge Black.
	Appellate Proceedings.
Feb. 3, 1960	Petition for Review by U. S. Ct. of Ap. for 8th Cir. filed by petr.
Feb. 3, 1960	Proof of Service of pet. for rev. filed.
Feb. 11, 1960	Agreed Designation of Contents of Record on Rev. filed.

[fol. 5]

IN THE TAX COURT OF THE UNITED STATES

General Docket

Mark E. Schlude and Marzalie Schlude, Husband and Wife, 459 Beverly Drive, Omaha, Nebraska, Petitioner,

Docket No. 69,593 vs.

Commissioner of Internal Revenue, Respondent.

Appearances for Petitioner:

Name: Robert Ash, Esq.,

Address: 4921 Eye Street, N. W.,
Washington 6, D. C.
Carl F. Bauersfeld, Esq., Einar Viren, Esq

Docket Entries in Docket No. 69,593

Date Month Day Year	Filings and Proceedings
Aug. 29, 1957	Petition filed. Fee paid 8/29/57.
Aug. 27, 1957	Request by petr. for trial at Omaha, Nebraska. Granted Sept. 11, 1957.
Oct. 4, 1957	Answer by resp. filed.
Dec. 24, 1957	Notice of trial 3-24-58 at Omaha, Neb.
Mar. 4, 1958	Motion by petr. to consolidate Dkt. Nos. 62109, 69591-69593. Granted 3-24-58.
Mar. 6, 1958	Notice of hgr. 3-24-58, Omaha, Nebr., on petr. motion.
Mar. 24, 1958	Trial before J. Black at Omaha, Neb. Joint oral motion to consolidate. Granted (62109, 69591, 2, 3). Stipulation of Facts filed at trial. Appearance of Carl F. Bauersfeld and Einar Viren, Esq., filed. Briefs due June 23, 1958. Reply Briefs due July 23, 1958. Submitted to J. Black.

[fol. 6]

Date Month Day Year	Filings and Proceedings
	Under Submission.
Apr. 8, 1958	Supplemental Stipulation of Facts.
Apr. 17, 1958	Transcript of Proceedings 3-24-58 filed.
June 20, 1958	Motion by resp. for extension of time to July 7, 1958, to file brief. Granted 6-23-58.
June 23, 1958	Motion by petr. for extension of time to July 23, 1958, to file brief. Granted 6/23/58.
July 23, 1958	Brief for Petr. filed.
July 24, 1958	Motion by resp. for extension of time to Aug. 7, 1958, to file Brief. Granted 7-25-58.
Aug. 5, 1958	Brief for Resp. filed.
Sept. 3, 1958	Motion by petr. for extension of time to Oct. 6, 1958, to file reply brief. Granted 9-4-58.
Sept. 3, 1958	Joint Motion to correct the transcript. Granted 9-5-58.
Sept. 4, 1958	Reply Brief filed by Resp.
Oct. 3, 1958	Reply Brief filed by Petr.
June 18, 1959	Motion by petr. for leave to call the Court's attention to certain cases. Granted 6-19-59.
Sept. 28, 1959	Findings of Fact and Opinion filed Judge Black. Decision will be entered under R. 50.
Nov. 19, 1959	Motion by resp. for revision of order "No obj. by petr." Granted 11-23-59.
Nov. 23, 1959	Order, that resp. motion is Granted and the Findings of Fact and Opinion of Sept. 28, 1959 is revised.
Nov. 23, 1959	Decision entered. Judge Black.
	Appellate Proceedings.
Feb. 3, 1960	Petition for Review by U. S. Ct. of Ap. for 8th Cir. filed by petr.
Feb. 3, 1960	Proof of Service of pet. for rev. filed.
Feb. 11, 1960	Agreed Designation of Contents of Record on Rev. filed.

[fol. 7]

IN THE TAX COURT OF THE UNITED STATES

Docket No. 69591.

MARK E. SCHLUDE, Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

PETITION OF MARK E. SCHLUDE IN DOCKET NO. 69591—Filed August 29, 1957

The above-named petitioner hereby petitions for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (RC:OMA(OMA):Ap WEF:BCR:dmb) dated July 2, 1957, and as a basis of his proceeding alleges as follows:

I.

Petitioner is an individual whose address is 459 Beverly Drive, Omaha, Nebraska. The return for the year here involved was filed with the District Director of Internal Revenue, Omaha, Nebraska.

II.

The notice of deficiency, a copy of which is attached hereto and made a part of this petition by reference, is dated July 2, 1957.

III.

The tax in controversy is income tax for the year 1952 in the total amount of $9,264.69.

IV.

The determination of tax set forth in said notice of deficiency is based upon the following errors:

A. The Commissioner erred in increasing petitioner's "partnership income" in the amount of $14,101.12 for the year 1952.

[fol. 8] B. The Commissioner erred in determining that the petitioner's share of the distributable income of the partnership, Arthur Murray Dance Studio, for the year 1952 was $32,893.28.

C. The Commissioner erred in determining that petitioner's income should be increased by the amount of $24,602.22, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1952.

V.

The facts upon which petitioner relies as the basis for this proceeding are:

A. On June 18, 1946, the petitioner and his wife formed a partnership for the purpose of conducting Arthur Murray Dance Studios in territories authorized by various franchise agreements received from Arthur Murray, Inc., New York, New York. By the year 1956, the partnership had established dance studios in Omaha, Nebraska, Lincoln, Nebraska, and Sioux City, Iowa.

B. The partnership maintains its books of account on a fiscal year ending March 31 and uses the accrual method of accounting. The partners report their income on a calendar-year basis.

C. During the fiscal year ended March 31, 1950, the partnership, Arthur Murray Dance Studio, contracted with students to give them a course of dance instruction. Some of the contracts extended beyond the end of the taxable year in which the contract was made.

D. Students paid the partnership either in cash or by cash and deferred payments.

E. The partnership, using the accrual method of accounting, kept its books of account and reported the income it received from the dancing business when it was earned.

F. The method of accounting employed by the partnership clearly reflects its true income.

[fol. 9] G. All items of gross income and deductions have been treated consistently since the commencement of the partnership business on June 18, 1946.

Wherefore, the petitioner prays that this Court may hear the proceeding and:

A. Determine that the Commissioner erred in increasing petitioner's "partnership income" in the amount of $14,101.12 for the year 1952.

B. Determine that the Commissioner erred in determining that the petitioner's share of the distributable income of the partnership, Arthur Murray Dance Studio, for the year 1952 was $32,893.28.

C. Determine that the Commissioner erred in determining that petitioner's income should be increased by the amount of $24,602.22, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1952.

D. Grant such other and further relief as the Court may deem proper.

Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., Attorney for Petitioner.

Duly sworn to by Mark E. Schlude, jurat omitted in printing.

[fol. 19] ATTACHMENT TO PETITION

U. S. Treasury Department
Internal Revenue Service
Regional Commissioner
Omaha 2, Nebraska

In Replying Refer To:

RC:OMA(OMA):Ap
WEF:BCR:bmb

Mr. Mark E. Schlude
459 Beverly Drive
Omaha, Nebraska

Dear Mr. Schlude:

You are advised that the determination of your income tax liability for the taxable year ended December 31, 1952, discloses a deficiency in tax of $9,264.69, as shown in the statement attached.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiency or deficiencies mentioned.

Within 90 days from the date of the mailing of this letter you may file a petition with The Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiency. In counting the 90 days you may not exclude any day unless the 90th day is a Saturday, Sunday, or legal holiday in the District of Columbia, in which event that day is not counted as the 90th day. Otherwise, Saturdays, Sundays, and legal holidays are to be counted in computing the 90-day period.

Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the Assistant Regional Commissioner, Appellate, Room 100, Elks Club Building, 108 So. 18 Street, Omaha 2, Nebraska. The signing and filing of this form will expedite the closing of your return(s) by permitting an early assessment of the

deficiency or deficiencies, and will prevent the accumulation of interest, since the interest period terminates 30 days [fol. 11] after receipt of the form, or on the date of assessment, or on the date of payment, whichever is earlier.

Very truly yours,

Russell C. Harrington, Commissioner, By Ray H. Johnson, Associate Chief Appellate.

Enclosures:

Statement
IRS Pub 160 (Rev.)
Agreement Form

ORL 6-14-1
April 1957

57-2825 IRS-Omaha, Nebraska

ATTACHMENT

Statement

Mark E. Schlude
459 Beverly Drive
Omaha, Nebraska

Income Tax

Year	Deficiency
1952	$9,264.69

In making this determination of your income tax liability, careful consideration has been given to the report of examination dated July 3, 1956; to your protest received August 31, 1956; and to the statements made in the conferences held on November 20, 1956, and April 9, 1957.

A copy of this letter and statement has been mailed to your representative, Mr. Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., in accordance with the authority contained in the power of attorney executed by you.

[fol. 12] Taxable Year Ended December 31, 1952

Schedule 1

Adjustments to Net Income

Net income as disclosed by return	$20,245.79
Additional income and unallowable deductions:	
(a) Partnership income	14,101.12
Corrected net income	$34,346.91

Schedule 2

Explanation of Adjustments

(a) Examination of the books and records of the partnership of Arthur Murray Dance Studio discloses that your share of the distributable income for the taxable year ended March 31, 1952, is $32,893.28. Inasmuch as you reported $18,792.16, your taxable income has been increased by the difference, $14,101.12, computed as follows:

Ordinary net income on the partnership return	$ 37,584.33
Add:	
Unallowable deductions and additional income	
(1) Additional income	24,602.22
(2) Nonallowable deductions	3,600.00
Corrected partnership ordinary income	$ 65,786.55
Your distributable share	$ 32,893.28
As reported on Form 1040	18,792.16
Increase	$ 14,101.12

Explanation of partnership adjustments:

(1) Ordinary income is increased by the amount of $24,602.22, computed as follows:

Deferred income not reported 3/31/52	$131,143.92
" " " " 3/31/51	106,541.70
Adjustment to income	$ 24,602.22

[fol. 13] Your contention that the foregoing deferred income is not taxable in the taxable year ended March 31, 1952, is denied.

(2) Unallowable expenses of partnership:

Partnership expenses are reduced for personal use of automobile	$ 1,200.00
Personal expenses of partners included in partnership expenses	2,400.00
Total	$ 3,600.00

Schedule 3

Computation of Tax

Net income, Schedule 1	$ 34,346.91
Less: Exemptions (1)	600.00
Income subject to tax	$ 33,746.91
Tax liability (tentative)	$ 17,203.90
Computation of Alternative Tax:	
Income subject to tax	$ 33,746.91
Less: One-half excess of net long-term capital gain over net short-term capital loss	357.67
Balance	$ 33,389.24
Tax on $33,389.24	$ 16,960.68
Plus: 52% of $357.67	185.99
Alternative Tax	$ 17,146.67
Income Tax Liability	$ 17,146.67
Plus: Self-employment tax (as shown by return, not changed)	81.00
Total tax liability	$ 17,227.67
Tax liability shown by return, Orig. Acct. No. AF 703637	7,962.98
Deficiency of income tax	$ 9,264.69

[fol. 14]

IN THE TAX COURT OF THE UNITED STATES

ANSWER OF COMMISSIONER OF INTERNAL REVENUE IN DOCKET No. 69591—Filed October 4, 1957

The respondent, in answer to the petition filed in the above-entitled case, admits, denies and alleges as follows:

I.

Admits the allegations of paragraph I of the petition.

II.

Admits the allegations of paragraph II of the petition and alleges that the notice of deficiency was mailed to petitioner on July 2, 1957.

III.

Admits the allegations of paragraph III of the petition.

IV.

A., B. and C. Denies the allegations of error contained in subparagraphs A, B and C of paragraph IV of the petition.

V.

A. and B. Admits the allegations of subparagraphs A and B of paragraph V of the petition.

C. to G., inclusive. Denies the allegations of subparagraphs C to G, inclusive, of paragraph V of the petition.

VI.

Denies generally each and every allegation of the petition not hereinbefore specifically admitted, qualified or denied.

[fol. 15] Wherefore, it is prayed that the deficiency determined by the respondent be in all respects approved.

Nelson P. Rose, Chief Counsel, Internal Revenue Service.

Of Counsel: Douglas L. Barnes, Regional Counsel, Richard C. McLaughlin, Acting Special Assistant to the Regional Counsel, Internal Revenue Service, 100 Elks Club Building, Omaha, Nebraska.

IN THE TAX COURT OF THE UNITED STATES

Docket No 69592

MARZALIE SCHLUDE, Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

PETITION OF MARZALIE SCHLUDE IN DOCKET NO. 69592—
Filed August 29, 1957

The above-named petitioner hereby petitions for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (RC:OMA(OMA):Ap WEF:BCR:bmb) dated July 2, 1957, and as a basis of this proceeding alleges as follows:

[fol. 16] I.

Petitioner is an individual whose address is 459 Beverly Drive, Omaha, Nebraska. The return for the year here involved was filed with the District Director of Internal Revenue, Omaha, Nebraska.

II.

The notice of deficiency, a copy of which is attached hereto and made a part of this petition by reference, is dated July 2, 1957.

III.

The tax in controversy is income tax for the year 1952 in the total amount of $8,971.55.

IV.

The determination of tax set forth in said notice of deficiency is based upon the following errors:

A. The Commissioner erred in increasing petitioner's "partnership income" in the amount of $14,101.10 for the year 1952.

B. The Commissioner erred in determining that the petitioner's share of the distributable income of the partnership, Arthur Murray Dance Studio, for the year 1952 was $32,893.27.

C. The Commissioner erred in determining that petitioner's income should be increased by the amount of $24,602.22, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1952.

V.

The facts upon which petitioner relies as the basis for this proceeding are:

A. On June 18, 1946, the petitioner and her husband formed a partnership for the purpose of conducting Arthur [fol. 17] Murray Dance Studios in territories authorized by various franchise agreements received from Arthur Murray, Inc., New York, New York. By the year 1950, the partnership had established dance studios in Omaha, Nebraska, Lincoln, Nebraska, and Sioux City, Iowa.

B. The partnership maintains its books of account on a fiscal year ending March 31 and uses the accrual method of accounting. The partners report their income on a calendar-year basis.

C. During the fiscal year ended March 31, 1950, the partnership, Arthur Murray Dance Studio, contracted with students to give them a course of dance instruction. Some of the contracts extended beyond the end of the taxable year in which the contract was made.

D. Students paid the partnership either in cash or by cash and deferred payments.

E. The partnership, using the accrual method of accounting, kept its books of account and reported the income it received from the dancing business when it was earned.

F. The method of accounting employed by the partnership clearly reflects its true income.

G. All items of gross income and deductions have been treated consistently since the commencement of the partnership business on June 18, 1946.

Wherefore, the petitioner prays that this Court may hear the proceeding and:

A. Determine that the Commissioner erred in increasing petitioner's "partnership income" in the amount of $14,101.10 for the year 1952.

B. Determine that the Commissioner erred in determining that the petitioner's share of the distributable income of the partnership, Arthur Murray Dance Studio, for the year 1952 was $32,893.27.

C. Determine that the Commissioner erred in determining that petitioner's income should be increased by the [fol. 18] amount of $24,602.22, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1952.

D. Grant such other and further relief as the Court may deem proper.

Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., Attorney for Petitioner.

Duly sworn to by Marzalie Schlude, jurat omitted in printing.

ATTACHMENT TO PETITION

U. S. Treasury Department
Internal Revenue Service
Regional Commissioner
Omaha 2, Nebraska

In Replying Refer To:

RC:OMA(OMA):Ap
WEF:BCR:bmb

Mrs. Marzalie Schlude
459 Beverly Drive
Omaha, Nebraska

Dear Mrs. Schlude:

You are advised that the determination of your income tax liability for the taxable year ended December 31, 1952, [fol. 19] discloses a deficiency in tax of $8,971.55, as shown in the statement attached.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiency or deficiencies mentioned.

Within 90 days from the date of the mailing of this letter you may file a petition with The Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiency. In counting the 90 days you may not exclude any day unless the 90th day is a Saturday, Sunday, or legal holiday in the District of Columbia, in which event that day is not counted as the 90th day. Otherwise, Saturdays, Sundays, and legal holidays are to be counted in computing the 90-day period.

Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the Assistant Regional Commissioner, Appellate, Room 100, Elks Club Building, 108 So. 18 Street, Omaha 2, Nebraska. The signing and filing of this form will expedite the closing of your return(s) by permitting an early assessment of the defi-

ciency or deficiencies, and will prevent the accumulation of interest, since the interest period terminates 30 days after receipt of the form, or on the date of assessment, or on the date of payment, whichever is earlier.

Very truly yours,

Russell C. Harrington, Commissioner, By Ray H. Johnson, Associate Chief Appellate.

Enclosures:

Statement
IRS Pub 160 (Rev)
Agreement Form

ORL-6-14-1
April 1957

57-2825 IRS Omaha, Nebraska

[fol. 20]

ATTACHMENT

Statement

Marzalie Schlude
459 Beverly Drive
Omaha, Nebraska

Income Tax

Year	Deficiency
1952	$8,971.55

In making this determination of your income tax liability, careful consideration has been given to the report of examination dated July 3, 1956; to your protest received August 31, 1956; and to the statements made in the conferences held on November 20, 1956, and April 9, 1957.

A copy of this letter and statement has been mailed to your representative, Mr. Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., in accordance with the authority contained in the power of attorney executed by you.

Taxable Year Ended December 31, 1952

Schedule 1

Adjustments to Net Income

Net income as disclosed by return	$20,592.34
Additional income and unallowable deductions:	
(a) Partnership income	14,101.10
Corrected net income	$34,693.44

Schedule 2

Explanation of Adjustments

(a) Examination of the books and records of the partnership of Arthur Murray Dance Studio discloses that your share of the distributable income for the taxable year ended March 31, 1952, is $32,893.27. Inasmuch as you reported [fol. 21] $18,792.17, your taxable income has been increased by the difference, $14,101.10, computed as follows:

Ordinary net income on the partnership return	$ 37,584.33
Add:	
Unallowable deductions and additional income	
(1) Additional income	24,602.22
(2) Nonallowable deductions	3,600.00
Corrected partnership ordinary income	$ 65,786.55
Your distributable share	$ 32,893.27
As reported on Form 1040	18,792.17
Increase	$ 14,101.10

Explanation of partnership adjustments:

(1) Ordinary income is increased by the amount of $24,602.22, computed as follows:

Deferred income not reported 3/31/52	$131,143.92
" " " " 3/31/51	106,541.70
Adjustment to income	$ 24,602.22

Your contention that the foregoing deferred income is not taxable in the taxable year ended March 31, 1952, is denied.

(2) Unallowable expenses of partnership:

Partnership expenses is reduced for personal use of automobile	$ 1,200.00
Personal expenses of partners included in partnership expenses	2400.00
Total	$ 3,600.00

[fol. 22]

Schedule 3

Computation of Tax

Net income, Schedule 1	$ 34,693.44
Less: Exemptions (1)	600.00
Income subject to tax	$ 34,093.44
Tax liability (tentative)	$ 17,439.54
Computation of Alternative Tax:	
Income subject to tax	$ 34,093.44
Less: One-half excess of net long-term capital gain over net short-term loss	3,594.10
Balance	$ 30,499.34
Tax on $30,499.34	$ 15,010.56
Plus: 52% of $3,594.10	1,868.93
Alternative tax	$ 16,879.49
Income tax liability	$ 16,879.49
Plus: Self-employment tax (as shown by return not changed)	81.00
Total tax liability	$ 16,960.49
Tax liability shown by return, Orig. Acct. No. AF 703636	7,988.94
Deficiency of income tax	$ 8,971.55

IN THE TAX COURT OF THE UNITED STATES

ANSWER OF COMMISSIONER OF INTERNAL REVENUE IN DOCKET NO. 69592—Filed October 4, 1957

The Respondent, in answer to the petition filed in the above-entitled case, admits, denies and alleges as follows:

I.

Admits the allegations of paragraph I of the petition.

[fol. 23] II.

Admits the allegations of paragraph II of the petition and alleges that the notice of deficiency was mailed to petitioner on July 2, 1957.

III.

Admits the allegations of paragraph III of the petition.

IV.

A., B. and C. Denies the allegations of error contained in subparagraphs A, B and C of paragraph IV of the petition.

V.

A. and B. Admits the allegations of subparagraphs A and B of paragraph V of the petition.

C. to G., inclusive. Denies the allegations of subparagraphs C to G, inclusive, of paragraph V of the petition.

VI.

Denies generally each and every allegation of the petition not hereinbefore specifically admitted, qualified or denied.

Wherefore, it is prayed that the deficiency determined by the respondent be in all respects approved.

Nelson P. Rose, Chief Counsel, Internal Revenue Service.

Of Counsel, Douglas L. Barnes, Regional Counsel, Richard C. McLaughlin, Acting Special Assistant to the Regional Counsel, Internal Revenue Service, 100 Elks Club Building, Omaha, Nebraska.

[fol. 24]

IN THE TAX COURT OF THE UNITED STATES

Docket No. 69593

MARK F. SCHLUDE AND MARZALIE SCHLUDE, Husband and Wife, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

PETITION OF MARK F. SCHLUDE AND MARZALIE SCHLUDE IN DOCKET NO. 69593—Filed August 29, 1957

The above-named petitioners hereby petition for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (RC:OMA(OMA):Ap WEF:BCR:bmb), dated July 2, 1957, and as a basis of their proceeding allege as follows:

I.

Petitioners are husband and wife whose address is 459 Beverly Drive, Omaha, Nebraska. The returns for the years here involved were filed with the District Director of Internal Revenue, Omaha, Nebraska.

II.

The notice of deficiency, a copy of which is attached hereto and made a part of this petition by reference, is dated July 2, 1957.

III.

The taxes in controversy are income taxes for the years 1953 and 1954 in the total amount of $94,940.14, the detail of which is as follows:

[fol. 25]

Year	Amount
1953	$83,395.82
1954	11,544.32
Total	$94,940.14

IV.

The determination of tax set forth in said notice of deficiency is based upon the following errors:

A. The Commissioner erred in increasing petitioners' "partnership income" in the amount of $108,398.41 for the year 1953.

B. The Commissioner erred in determining that petitioners' share of the distributable income of the partnership, Arthur Murray Dance Studio, for the taxable year ended March 31, 1953, is $159,194.77.

C. The Commissioner erred in determining that petitioners' income should be increased by the amount of $104,798.41, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1953.

D. The Commissioner erred in increasing petitioners' "partnership income" in the amount of $16,397.97 for the year 1954.

E. The Commissioner erred in determining that petitioners' share of the distributable income of the partnership, Arthur Murray Dance Studio, for the taxable year ended March 31, 1954, is $85,491.10.

F. The Commissioner erred in determining that petitioners' income should be increased in the amount of $12,797.97, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1954.

V.

The facts upon which the petitioners rely as the basis for this proceeding are:

[fol. 26] A. On June 18, 1946, the petitioners formed a partnership for the purpose of conducting Arthur Murray Dance Studios in territories authorized by various franchise agreements received from Arthur Murray, Inc., New York, New York. By the year [illegible] the petitioners had established dance studios in Omaha, Nebraska; Lincoln, Nebraska; and Sioux City, Iowa.

B. The partnership maintains its books of account on a fiscal year ending March 31 and uses the accrual method of accounting. The partners, petitioners herein, report their income on a calendar year basis.

C. During the fiscal year ended March 31, 1950, the partnership Arthur Murray Dance Studios contracted with students to give them a course of dance instruction. Some of the contracts extended beyond the end of the taxable year in which the contract was made.

D. Students paid the partnership either in cash or by cash and deferred payments.

E. The partnership, using the accrual method of accounting, kept its books of account and reported the income it received from the dancing business when it was earned.

F. The method of accounting employed by the partnership clearly reflects its true income.

G. All items of gross income and deductions have been treated consistently since the commencement of the partnership business on June 18, 1946.

Wherefore, the petitioners pray that this Court may hear the proceeding and:

A. Determine that the Commissioner erred in increasing petitioners' "partnership income" in the amount of $108,208.41 for the year 1953.

B. Determine that the Commissioner erred in determining that petitioners' share of the distributable income of the partnership, Arthur Murray Dance Studios, for the taxable year ended March 31, 1953, is $159,194.77.

C. Determine that the Commissioner erred in determining that petitioners' income should be increased by the [fol. 27] amount of $104,798.41, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1953.

D. Determine that the Commissioner erred in increasing petitioners' "partnership income" in the amount of $16,397.97 for the year 1954.

E. Determine that the Commissioner erred in determining that petitioners' share of the distributable income of the partnership, Arthur Murray Dance Studio, for the taxable year ended March 31, 1954, is $85,491.10.

F. Determine that the Commissioner erred in determining that petitioners' income should be increased in the amount of $12,797.97, alleged to be "deferred income not reported" of the partnership, Arthur Murray Dance Studio, for the fiscal year ended March 31, 1954.

G. Grant such other and further relief as the Court may deem proper.

Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., Attorney for Petitioners.

Duly sworn to by Mark E. Schlude and Marzalie Schlude; jurat omitted in printing.

[fol. 28] ATTACHMENT TO PETITION

U. S. Treasury Department
Internal Revenue Service
Regional Commissioner
Omaha 2, Nebraska

Assistant Regional Commissioner, Appellate
Room 100, Elks Club Building
108 South 18th Street
Omaha 2, Nebraska

Jul 2 1957

In Replying Refer To:
RC:(OMA)(OMA):Ap
WEF:BCR:bmb

Mr. Mark E. Schlude and
Mrs. Marzalie Schlude,
Husband and Wife
459 Beverly Drive
Omaha, Nebraska

Dear Mr. and Mrs. Schlude:

You are advised that the determination of your income tax liability for the taxable years ended December 31, 1953, and December 31, 1954, discloses deficiencies in tax aggregating $94,940.14, as shown in the statement attached.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiency or deficiencies mentioned.

Within 90 days from the date of the mailing of this letter you may file a petition with The Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiency. In counting the 90 days you may not exclude any day unless the 90th day is a Saturday, Sunday, or legal holiday in the District of Columbia, in which event that day is not counted as the 90th day. Otherwise, Saturdays, Sundays, and legal holidays are to be counted in computing the 90-day period.

[fol. 29] Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the Assistant Regional Commissioner, Appellate Room 100, Elks Club Building, 408 So. 18 Street, Omaha 2, Nebraska. The signing and filing of this form will expedite the closing of your return(s) by permitting an early assessment of the deficiency or deficiencies, and will prevent the accumulation of interest, since the interest period terminates 30 days after receipt of the form, or on the date of assessment, or on the date of payment, whichever is earlier.

Very truly yours,

Russell C. Harrington, Commissioner, By Ray H. Johnson, Associate Chief Appellate.

Enclosures:

Statement
IRS Pub 160 (Rev)
Agreement Form

ORL-6-14-1
April 1957

57-2825 IRS Omaha, Nebraska

ATTACHMENT

Statement

Mark E. Schlude and Marzalie Schlude,
Husband and Wife
459 Beverly Drive
Omaha, Nebraska

Income Tax

Year	Deficiency
1953	$83,395.82
1954	11,544.32
Total	$94,940.14

[fol. 30] In making this determination of your income tax liability, careful consideration has been given to the report of examination dated July 3, 1956; to your protest received August 31, 1956; and to the statements made in the conferences held on November 20, 1956, and April 9, 1957.

A copy of this letter and statement has been mailed to your representative, Mr. Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., in accordance with the authority contained in the power of attorney executed by you.

Taxable Year Ended December 31, 1953

Schedule 1

Adjustments to Net Income

Net income as disclosed by return		$ 58,222.49
Additional income and unallowable deductions:		
(a) Partnership income	$108,398.41	
(b) Unreported income	2,100.00	110,498.41
Corrected net income		$168,720.90

Schedule 2

Explanation of Adjustments

(a) Examination of the books and records of the partnership of Arthur Murray Dance Studio discloses that your share of the distributable income for the taxable year ended March 31, 1953, is $159,194.77. Inasmuch as you reported $50,796.36, your taxable income has been increased by the difference, $108,398.41, computed as follows:
[fol. 31]

Ordinary net income shown on partnership return	$ 50,796.36
Add:	
Unallowable deductions and additional income	
(1) Additional income	$104,798.41
(2) Nonallowable deductions	3,600.00

Corrected Arthur Murray Dance Studio partnership ordinary net income		$159,194.77
Mark Schlude's distributive share		$ 79,597.39
Marzalie Schlude's " "		79,597.38
Total		$159,184.77
Arthur Murray Dance Studio partnership ordinary income reported on your return:		
Mark E. Schlude	$25,398.18	
Marzalie Schlude	25,398.18	50,796.36
Understatement		$108,398.41

Explanation of partnership adjustments:

(1) Ordinary income is increased by the amount of $104,798.41, computed as follows:

Deferred income not reported	3/31/53	$235,942.33
" " " "	3/31/52	131,143.92
Adjustment to income		$104,798.41

Your contention that the foregoing deferred income is not taxable in the taxable year ended March 31, 1953, is denied.

(2) Unallowable expense of partnership:

Partnership expense is reduced for personal use of automobile	$ 1,200.00
Personal expense of partners included in partnership expense	2,400.00
Total	$ 3,600.00

[fol. 32] (b) It is held that you have unreported income of $2,400.00; therefore, your taxable income is increased by this amount.

Schedule 3

Computation of Tax

Net income, Schedule 1	$168,720.90
Less: Exemptions (2)	1,200.00
Income subject to tax	$167,520.90

One-half of $167,520.90 (joint computation)		$ 83,760.45
Tax on $83,760.45	$56,112.38	
Total tax ($56,112.38 × 2)		$112,224.76
Computative of Alternative Tax (Joint Computation)		
One-half income, subject to tax		$ 83,760.45
Less: One-half excess of net long-term capital gain over net short-term loss		4,034.35
Balance		$ 79,726.10
Tax on $79,726.10	$52,688.86	
Plus: 52% of $4,034.35, net long-term capital gain	2,097.86	
Tentative tax	$54,786.52	
Alternative tax ($54,786.52 multiplied by 2)		$109,573.04
Income tax liability		$109,573.04
Plus: Self-employment tax (as shown by return—not changed)		162.00
Total tax liability		$109,735.04
Tax liability shown by return, Orig. Acct. No. AF 1000221		26,339.22
Deficiency of income tax		$ 83,395.82

[fol. 33]

Taxable Year Ended December 31, 1954

Schedule 4

Adjustments to Taxable Income

Taxable income as disclosed by return		$ 68,284.97
Additional income and unallowable deductions:		
(a) Partnership income	$16,397.97	
(b) Depreciation adjustment	785.12	17,183.09
Corrected taxable income		$ 85,468.06

Schedule 5

Explanation of Adjustments

(a) Examination of the books and records of the Arthur Murray Dance Studio discloses that your share of the distributable income for the taxable year ended March 31, 1954, is $85,491.10. Inasmuch as you reported $69,093.13, your taxable income has been increased by the difference, $16,397.97, computed as follows:

Ordinary net income shown on partnership return		$ 69,093.13
Add:		
(1) Additional income		12,797.97
(2) Nonallowable deduction		3,600.00
Corrected Arthur Murray Dance Studio partnership ordinary net income		$ 85,491.10
Mark E. Schlude's distributive share		$ 42,745.55
Marzalie Schlude's " "		42,745.55
Total		$ 85,491.10
Arthur Murray Dance Studio partnership ordinary income reported on your r[illegible]n:		
Mark E. Sc[illegible]	$34,546.57	
Marzalie Sc[illegible]	34,546.56	69,093.13
Understatement		$ 16,397.97

[fol. 34] Explanation of partnership adjustments:

(1) Ordinary income is increased by the amount of $12,797.97, computed as follows:

Deferred income not reported	3/31/54	$248,740.30
" " " "	3/31/53	235,942.33
Adjustment to income		$ 12,797.97

Your contention that the foregoing deferred income is not taxable in the taxable year ended March 31, 1954, is denied.

(2) Unallowable expenses of partnership:

Partnership expense is reduced for personal expense of automobile	$ 1,200.00
Personal expense of partners included in partnership expenses	2,400.00
Total	$ 3,600.00

(b) The sum of the years-digits method of computing depreciation is not applicable to property constructed prior to 1954. Therefore, the depreciation allowable on your building has been recomputed using the straight-line method as follows:

Item	Date Acquired	Cost	Life	Depreciation Allowable
Building	10-1-54	$97,704.80	40 years	$610.66 (1/4 yr.)

Depreciation allowable	$ 610.66
Claimed on return	1,395.78
Amount not allowable	$ 785.12

[fol. 35]

Schedule 6

Computation of Tax

Taxable income, Schedule 4		$ 85,468.06
One-half of $85,468.06		$ 42,734.03
Tax on $42,734.03	$21,626.48	
Total tax ($21,626.48 × 2)		$ 43,252.96

Computation of Alternative Tax (Joint Computation)

One-half taxable income	$ 42,734.03
Less: One-half excess of net long-term gain over net short-term loss	42.66
Balance	$ 42,691.37

Tax on $42,691.37	$21,597.05	
Plus: 50% of $42.66, net long-term capital gain	21.33	
Tentative tax	$21,618.38	
Alternative tax ($21,618.38 multiplied by 2)		$ 43,236.76
Income tax liability		$ 43,236.76
Plus: Self-employment tax (as shown by return—not changed)		216.00
Total tax liability		$ 43,452.76
Tax liability shown by return, Orig. Acct. No. AC 1000048		31,908.44
Deficiency of income tax		$ 11,544.32

In the Tax Court of the United States

Answer of Commissioner of Internal Revenue in Docket No. 69,93—Filed October 4, 1957

The Respondent, in answer to the petition filed in the above-entitled case, admits, denies and alleges as follows:

[fol. 36] I.

Admits the allegations of paragraph I of the petition.

II.

Admits the allegations of paragraph II of the petition and alleges that the notice of deficiency was mailed to petitioners on July 2, 1957.

III.

Admits the allegations of paragraph III of the petition.

IV.

A. to F., inclusive. Denies the allegations of error contained in subparagraphs A to F, inclusive, of paragraph IV of the petition.

V.

A. and B. Admits the allegations of subparagraphs A and B of paragraph V of the petition.

C. to G., inclusive. Denies the allegations of subparagraphs C to G, inclusive, of paragraph V of the petition.

VI.

Denies generally each and every allegation of the petition not hereinbefore specifically admitted, qualified or denied.

Wherefore, it is prayed that the deficiencies determined by the respondent be in all respects approved.

Nelson P. Rose, Chief Counsel, Internal Revenue Service.

Of Counsel, Douglas L. Barnes, Regional Counsel, Richard C. McLaughlin, Acting Special Assistant to the Regional Counsel, Internal Revenue Service, 100 Elks Club Building, Omaha, Nebraska.

[fol. 37]

IN THE TAX COURT OF THE UNITED STATES

Docket No. 62109

MARK E. SCHLUDE and MARZALIE SCHLUDE, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

Docket No. 69591

MARK E. SCHLUDE, Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

Docket No. 69592

MARZALIE SCHLUDE, Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

Docket No. 69593

MARK E. SCHLUDE and MARZALIE SCHLUDE, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

STIPULATION OF FACTS IN DOCKET NOS. 62109, 69591, 69592 AND 69593—Filed March 24, 1958

It is hereby stipulated that, for the purpose of these cases, the following statements may be accepted as facts

and all exhibits referred to herein and attached hereto are incorporated in this stipulation and made a part hereof, [fol. 38] subject to the right of either party to object to the admission of such facts or exhibits in evidence on the grounds of materiality and relevancy; provided, however, that either party may introduce other and further evidence not inconsistent with the facts herein stipulated.

1. Petitioners are husband and wife and now reside at 459 Beverly Drive, Omaha, Nebraska. The returns for the years here involved were filed with the office of the now District Director of Internal Revenue (formerly Collector or Director of Internal Revenue) for the District of Nebraska.

2. On June 18, 1946, the petitioners formed a partnership for the purpose of conducting Arthur Murray Dance Studios in territories authorized by various franchise agreements received from Arthur Murray, Inc., New York, New York. The location of the various studios being operated and the date of their formation is as follows:

Location	Date of Formation
Omaha, Nebraska	June 18, 1946
Lincoln, Nebraska	September 20, 1948
Sioux City, Iowa	October 1, 1949
Sioux Falls, South Dakota	June 1, 1952
Grand Island, Nebraska	October 3, 1953

3. The partnership maintains its books of account on fiscal years ending March 31st and uses the accrual method of accounting. The partners, petitioners herein, report their income on a calendar year basis and use the cash basis of accounting.

4. Attached hereto are photostatic copies of U. S. Partnership Return of Income for the taxable years ending March 31, 1949 to March 31, 1954, inclusive, which are marked Exhibits 1-A to 6-F, inclusive.

5. Attached hereto are photostatic copies of petitioners' United States Individual Income Tax Returns, which are marked as follows:

[fol. 39] Mark E. Schlude and Marzalie Schlude—1950	Exhibit 7-G
Mark E. Schlude—1951	Exhibit 8-H
Marzalie Schlude—1951	Exhibit 9-I
Mark E. Schlude—1952	Exhibit 10-J
Marzalie Schlude—1952	Exhibit 11-K
Mark E. and Marzalie Schlude—1953	Exhibit 12-L
Mark E. and Marzalie Schlude—1954	Exhibit 13-M

6. Attached hereto and marked Exhibit 14-N is a schedule entitled "Schedule Reflecting Contract Amount of Deferred Income and Amount of Deferred Income Collected and Uncollected at End of Each Fiscal Year." This schedule shows for the fiscal years ended March 31, 1950 to March 31, 1954, inclusive, Contract Amount of Deferred Income, Students Accounts Receivable, Reserve Fund Held by Bank, Deferred Income Collected (considering reserve fund held by bank as collected) and Deferred Income Collected (considering reserve fund held by bank as not collected until funds are released and made available for withdrawal by bank).

7. Petitioners are equal partners in the partnership known as Arthur Murray Dance Studio.

8. When a student engaged the studio to teach dancing lessons, the student and the studio executed one of the six forms of contracts attached hereto and marked Exhibits 15-O to 20-T.

9. If the contract executed was on a form entitled "Deferred Payment Enrollment Agreement and Contract With Student for Instruction", attached hereto and marked Exhibit 18-R, or on a form entitled "Deferred Payment Extension Agreement and Contract With Student for Instruction" attached hereto and marked Exhibit 19-S, or on a form entitled "Deferred Payment Renewal Agreement and Contract with Student for Instruction", marked Exhibit 20-T, then the student also executed, at the time of signing the contract, a note on a form such as is attached hereto and marked Exhibit 21-U.

[fol. 40] 10. At the time a student's note, referred to in paragraph 9 above, was transferred to the bank, the bank would deduct its interest charges and give approximately 50% of the balance of the note to the partnership and set up a reserve account for the other 50% of the note which the partnership could not use. After the note was paid in full by the student, the balance in the reserve account was transferred to the partnership's general bank account.

11. Cash payments received by the partnership directly from students, the amounts received by the partnership at the time notes were transferred to the bank and the amounts received by the partnership when notes transferred to the bank were fully paid, were either deposited or credited to a partnership general bank account without segregation from other partnership funds.

12. Income as reflected in the partnership books and returns for the fiscal years ended March 31, 1950 through March 31, 1954, included gains on cancellations of students' contracts as follows:

3/31/50	3/31/51	3/31/52	3/31/53	3/31/54
$5,376.93	$9,997.44	$26,861.40	$19,483.36	$28,448.61

13. Unpaid balances on notes held by bank for the fiscal years ended March 31, 1950 through March 31, 1954, were as follows:

	3/31/50	3/31/51	3/31/52	3/31/53	3/31/54
Ending Balance	$13,783.78	$ 1,842.10	$9,618.00	$10,627.96	$23,410.75
Beginning Balance	17,237.71	13,783.78	1,842.10	9,618.00	10,627.96

Robert Ash, Counsel for Petitioners.

Arch M. Cantrall, Chief Counsel, Internal Revenue Service, Counsel for Respondent.

COMPUTAT...

(H-2) FRC 380217

UNITED STATES

FORM 1065
Treasury Department
Internal Revenue Service

PARTNERSHIP RETURN OF INCOME

Page 1

1948

(To be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

For Calendar Year 1948

or fiscal year beginning ...., 1948, and ending ...., 1949

(File this return with the Collector of Internal Revenue not later than the 15th day of the 3d month following the close of the taxable year)

(PRINT PLAINLY NAME AND BUSINESS ADDRESS OF THE ORGANIZATION)

Arthur Murray Dance Studio
(Name)

309 South 19th Street
(Street and number)

Omaha — Douglas — Nebraska
(City, town, or post office) (Postal zone number) (State)

Business or Profession: Instruction of Ballroom Dancing

Do Not Use These Spaces
File Code
Serial No. 8851301
District
(Date Received)

... 16 194..
A ... DIST NEBR.

GROSS INCOME

Item and Instruction No.					
1.	Gross receipts from business or profession			$113,695	[illegible]
2.	Less cost of goods sold:				
	(a) Inventory at beginning of year	$			
	(b) Merchandise bought for sale				
	(c) Cost of labor, supplies, etc.				
	(d) Total of lines (a), (b), and (c)	$			
	(e) Less inventory at end of year				
3.	Gross profit (or loss) from business or profession (item 1 less item 2)			$11[illegible]	[illegible]
4.	Income (or loss) from other partnerships, syndicates, pools, etc. (State separately name, address, and amount)				
5.	Interest on bank deposits, notes, corporation bonds, etc. (except interest to be reported in item 6)			589	83
6.	Interest on tax-free covenant bonds upon which a Federal tax was paid at source				
7.	Interest on Government obligations, etc., unless wholly exempt from tax				
8.	Rents				
9.	Royalties				
10.	Net gain (or loss) from sale or exchange of property other than capital assets (from line 2, Schedule A)				
11.	Dividends				
12.	Other income (state nature of income)				
13.	Total income in items 3 to 12			$114,284	71

DEDUCTIONS

14.	Salaries and wages (do not include compensation for partners)	$32,432	31
15.	Rent	5,339	31
16.	Repairs	324	[illegible]
17.	Interest on indebtedness (explain in Schedule E; do not include interest on capital invested in the business by any partner)	75	[illegible]
18.	Taxes (explain in Schedule B)	Other De[illegible]	
19.	Losses by fire, storm, shipwreck, or other casualty, or theft (submit schedule)		
20.	Bad debts (explain in Schedule C)	117	[illegible]
21.	Depreciation (explain in Schedule D)	[illegible],735	[illegible]
22.	Amortization of emergency facilities (attach statement)		
23.	Depletion of mines, oil and gas wells, timber, etc. (submit schedule)		
24.	Other deductions authorized by law (explain in Schedule E)	57,830	[illegible]
25.	Total deductions in items 14 to 24	$80,594	[illegible]
26.	Ordinary net income (item 13 less item 25)	$33,690	[illegible]
27.	Net short-term capital gain (or loss) (from line 4 Schedule G)	$ —)—	
28.	Net long-term capital gain (or loss) (from line 8 Schedule G)	$ — —	

[redacted]

Schedule A.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS.
(See Instruction 10)

1. Kind of property	2. Date acquired	3. Gross sales price (contract price)	4. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	5. Cost or other basis (If not purchased, attach explanation)	6. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913
		$	$	$	$
1. Totals		$	$	$	$

2. Total net gain or loss (columns 3 plus 4 minus the sum of columns 5 and 6). Enter as item 10, page 1 $

Schedule B.—TAXES. (See Instruction 18)

Nature	Amount	Nature (continued)	Amount (continued)
	$		$
		Total (enter as item 18, page 1)	$

Schedule C.—BAD DEBTS. (See Instruction 20)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	5. Gross amount added to reserve (If organization carried a reserve)	6. Amount charged against reserve (If organization carried a reserve)
1945	$	$	$	$	$
1946					
1947					
1948	Employee Advances			187 89	82 89

NOTE.—Check whether deduction claimed represents debts which have become worthless [ ], or is an addition to a reserve [ ].

Schedule D.—DEPRECIATION. (See Instruction 21)

1. Kind of property (if buildings, state material of which constructed)	2. Date acquired	3. Cost or other basis (do not include land or other nondepreciable property)	4. Assets fully depreciated in use at end of year	5. Depreciation allowed (or allowable) in prior years	6. Remaining cost or other basis to be recovered	7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year
Music Equipment	Various	$1,454 00	-0-	$323 60	$1,130 40	2 yrs		$485 6[illegible]
Automobile		4,014 40	-0-	-0-	4,014 40	3 yrs		*35 10
Furniture & Fixtures		10,229 70	-0-	1,180 56	9,049 14	5 yrs		1,491 73
Leasehold Improvements		3,562 86	-0-	1,434 16	2,148 70	Various Locations		1,520 98
Total (enter as item 21, page 1)								$4,733 46

* (Includes depreciation of $120.00 on old ~~auto disposed of during year)~~

Schedule E.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 17 AND 24

1. Item No.	2. Explanation	3. Amount	1. Item No. (continued)	2. Explanation (continued)	3. Amount (continued)
	Interest on loans and discount paper defaulted by maker	$ 75 90			$

Schedule F.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction for Schedule I)

Name and address of organization	Amount	Name and address of organization (continued)	Amount (continued)
Greek Charities	$ 1 80		$
Omaha Community Chest	25 20		
Disabled American Vets	2 00		
Nebraska Society for Crippled Children	10 00		
Lancaster County T.B. Association	4 00		
		Total (enter in column 7, Schedule I)	$ [illegible] 80

[illegible]

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Other Deductions—Line 24—Page 1.

Arthur Murray Dance Studio—Omaha & Lincoln, Nebraska.

For Year Ended March 31, 1949.

Supplies for instructors	$ 141.55
Tuition cost paid other Arthur Murray Dance Studios	418.50
Royalties to Arthur Murray	10,676.66
Advertising expense	9,664.72
Automobile expense	573.31
Dues and subscriptions	98.50
Insurance expense	316.58
Professional services	2,258.70
Miscellaneous expense	1,571.22
Personal property tax expense	144.18
Payroll tax expense	1,299.85
Janitor service	1,200.00
Redecorating expense	739.00
Office stationery & supplies	1,453.93
Telephone and telegraph	1,626.91
Records	800.19
Heat, light and water	1,108.73
Club Dues and entertainment	1,858.74
Travel and convention expense	1,275.00
Cost of removing partitions and fixtures to new location	200.00
Loss on equipment disposed of	203.99
Total	$37,630.26

Schedule G.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS. (See instructions 27-28)

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis (If not purchased attach explanation)	7. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS						
			$	$	$	$
1. Totals			$	$	$	$

2. Net short-term gain or loss other than from other partnerships and from common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 1) $
3. Enter share of net short-term gain or loss from other partnerships and from common trust funds
4. Enter here and also as item 27, page 1, the sum of gains or losses, or difference between gain and loss, shown in lines 2 and 3 $

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation	6. Cost or other basis	7. Expense of sale
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS						
			$	$	$	$
5. Totals			$	$	$	$

6. Net long-term gain or loss other than from other partnerships and from common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 5) $
7. Enter the full amount of share of net long-term gain or loss from other partnerships and from common trust funds
8. Enter here and also as item 28, page 1, the sum of gains or losses, or difference between gain and loss, shown in lines 6 and 7 $

QUESTIONS

1. Date of organization June 18, 1946
2. If organized in 1948, indicate whether (*a*) completely new business ☐, or (*b*) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐, or (3) sole proprietorship ☐; or (4) other (indicate)
   If successor to previously existing business, give name and address of the previous business organization
3. Nature of organization (partnership, syndicate, pool, joint venture, etc.) Partnership
4. Was a return of income filed for preceding year? Yes If so, to which collector's office was it sent? Omaha
5. Check whether this return was prepared on the cash [ ] or accrual [X] basis.
6. State whether inventories at the beginning and end of the taxable year were valued at (*a*) cost, or (*b*) cost or market whichever is lower
   If any other basis is used, attach statement describing basis fully, state why used and the date inventory was last reconciled with stock
7. Is any member of the partnership the spouse, son, or daughter of any other member? (Answer "Yes" or "No") Yes
8. Did the organization at any time during the taxable year own directly or indirectly any stock of a foreign corporation or of a personal holding company, as defined in section 501 of the Internal Revenue Code? (Answer "Yes" or "No") If answer is "Yes," attach list showing name and address of each such corporation and amount of stockholdings.
9. Was return of information on Forms ~~1096~~ and 1099, or Form W-2a, filed for the calendar year 1948? Yes
   (See Instruction H.)

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Schedule H.—BALANCE SHEETS

ASSETS	Beginning of taxable year — Amount	Beginning of taxable year — Total	End of taxable year — Amount	End of taxable year — Total
1. Cash		$ 10,989 97		$ 8,822 [illegible]
2. Notes and accounts receivable (less reserve)		4,785 00		8,007 [illegible]
3. Inventories				
4. Investments				
5. Depreciable assets	$ 11,654 81		$ 19,280 96	
Less: Reserve for depreciation	3,503 66	8,161 15	7,428 52	11,852 44
6. ~~Land~~ Deferred Charges		1,102 11		290 23
7. Other assets		6,306 51		25,101 60
8. Total assets		$ 31,334 74		$ 54,074 84
LIABILITIES				
9. Accounts payable		$ 1,647 28		$ 1,502 23
10. Notes and mortgages payable		1,028 02		36 00
11. Accrued expenses		1,165 51		1,558 09
12. ~~Other liabilities~~ – Deferred		32,899 81		35,204 04
13. Partners' capital accounts:				
(a)	$		$	
(b) Mark E. Schlude	(2,702 94)		7,887 24	
(c)				
(d) Marzalie Schlude	(2,702 94)		7,887 24	
(e)				
(f)		(5,405 88)		15,774 48
14. Total liabilities		$ 31,334 74		$ 54,074 84

Schedule I.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule I)

1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another collection district, specify district	2. Percentage of time devoted to business	3. Ordinary net income (item 26, page 1) less any partially tax-exempt interest included in item 7, page 1	4. Partially tax-exempt interest included in item 7, page 1
(a)		$	$
(b) Mark E. Schlude Omaha	100%	16,845 44	
(c)			
(d) Marzalie Schlude Omaha	100%	16,845 45	
(e)			
(f)			
Totals		$ 33,690 89	$

CONTINUATION OF SCHEDULE I

	5. Net short-term gain (or loss) from sale or exchange of capital assets (from item 27, page 1)	6. Net long-term gain (or loss) from sale or exchange of capital assets (from item 28, page 1)	7. Charitable contributions (from Schedule F)	8. Federal income tax paid at source (2 percent of item 6, page 1)	9. Income and profits taxes paid to a foreign country or United States possession
(a)	$	$	$	$	$
(b)			21 40		
(c)					
(d)			21 40		
(e)					
(f)					
Totals	$	$	$ 42 80	$	$

AFFIDAVIT (See Instruction D)

I swear (or affirm) that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

Robert J. Davis 6/15/49 — (Signature of person (other than partner or member) preparing return) (Date)

Marzalie Schlude 6/15/49 — (Partner or member) (Date)

(Name of firm or employer, if any)

(Address of partner or member)

Subscribed and sworn to before me this 15th day of June, 1949

Subscribed and sworn to before me this 15th day of June, 1949

Clayton Brown — (Signature of officer administering oath) (Title)

Clayton Brown — (Signature of officer administering oath) (Title)

FORM 1065
U. S. Treasury Department
Internal Revenue Service

UNITED STATES

PARTNERSHIP RETURN OF INCOME

1949 Page 1

(To Be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

For Calendar Year 1949

or fiscal year beginning April 1, 1949, and ending March 31, 1950

(File this return with the Collector of Internal Revenue not later than the 15th day of the 3d month following the close of the taxable year)

Do Not Use These Spaces — Serial No. 8851544 — Date (Date Received)

(PRINT PLAINLY NAME AND BUSINESS ADDRESS OF THE ORGANIZATION)

ARTHUR MURRAY DANCE STUDIO (Name)

309 SOUTH 19th STREET (Street and number)

OMAHA (City, town, or post office) DOUGLAS (Postal zone number) NEBRASKA (State)

Business or Profession Instruction of Ballroom Dancing

GROSS INCOME

Item			
1. Gross receipts from business or profession		$ 125,599.44	
2. Less cost of goods sold:			
(a) Inventory at beginning of year	$		
(b) Merchandise bought for sale			
(c) Cost of labor, supplies, etc.			
(d) Total of lines (a), (b), and (c)	$		
(e) Less inventory at end of year			
3. Gross profit (or loss) from business or profession (item 1 less item 2)		$ 125,599.44	
4. Income (or loss) from other partnerships, syndicates, pools, etc. (State separately name, address, and amount)			
5. Interest on bank deposits, notes, corporation bonds, etc. (except interest to be reported in item 6)		760.90	
6. Interest on tax-free covenant bonds upon which a Federal tax was paid at source			
7. Interest on Government obligations, etc., unless wholly exempt from tax			
8. Rents			
9. Royalties			
10. Net gain (or loss) from sale or exchange of property other than capital assets (from line 2, Schedule A)			
11. Dividends			
12. Other income (state nature of income)			
13. Total income in items 3 to 12			$ 126,360.34

DEDUCTIONS

Item		
14. Salaries and wages (do not include compensation for partners)	$ 42,722.34	
15. Rent	8,065.30	
16. Interest on indebtedness (explain in Schedule E; do not include interest on capital invested in the business by any partner)	9.00	
17. Taxes (explain in Schedule B)	1,870.42	
18. Losses by fire, storm, shipwreck, or other casualty, or theft (explain in schedule)		
19. Bad debts (explain in Schedule C) % Cash Advances to employees	407.37	
20. Depreciation (explain in Schedule D)	5,239.96	
21. Repairs	617.54	
22. Amortization of emergency facilities (attach statement)		
23. Depletion of mines, oil and gas wells, timber, etc. (submit schedule)		
24. Other deductions authorized by law (explain in Schedule E)	47,611.97	
25. Total deductions in items 14 to 24		106,543.90
26. Ordinary net income (item 13 less item 25)		$ 19,816.44
27. Net short term capital gain (or loss) (from line 4, Schedule G)		$ 554.42
28. Net long term capital gain (or loss) (from line 8, Schedule G)		$

[fol. 44] EXHIBIT 2-B TO STIPULATION OF FACTS

EXHIBIT 2-B

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Schedule A.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 10)

1. Kind of property	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (explain in Schedule D)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale
			$	$	$	$
1. Totals			$	$	$	$
2. Total net gain or loss (columns 4 plus 5 minus the sum of columns 6 and 7). Enter as item 10, page 1						$

Schedule B.—TAXES. (See Instruction 17)

Nature	Amount	Nature (continued)	Amount (continued)
Payroll Taxes	$ 1,737.57		$
Personal Property Taxes	132.85		
	1,870.42		
		Total (enter as item 18, page 1)	$

Schedule C.—BAD DEBTS. (See Instruction 19)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	If organization carried a reserve— 5. Gross amount added to reserve	6. Amount charged against reserve
1946	$	$	$	$	$
1947					
1948					
1949					

NOTE.—Check whether deduction claimed represents debts which have become worthless ☐, or is an addition to a reserve ☐.

Schedule D.—DEPRECIATION. (See Instruction 20)

1. Kind of property (if buildings, state material of which constructed)	2. Date acquired	3. Cost or other basis (do not include land or other nondepreciable property)	4. Assets fully depreciated in use at end of year	5. Depreciation allowed (or allowable) in prior years	6. Remaining cost or other basis to be recovered	7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year
Music Equipment	Various	1,910.67	$	$ 809.25	$1,101.42	2 yrs		$ 548.46
Automobile	*	5,989.40		1,115.10	4,874.30	3 yrs		1,473.16
Furniture & Fixtures		12,349.40		2,672.29	9,677.11	5 yrs		2,257.87
Leasehold Improvements		4,011.52		2,831.88	1,179.64	Period of Leases		960.47
Total (enter as item 21, page 1) (* See Attached schedule)								$5,239.96

Schedule E.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 16 AND 24

1. Item No.	2. Explanation	3. Amount	1. Item No. (continued)	2. Explanation (continued)	3. Amount (continued)
16	Interest on discount paper defaulted by maker	$ 9.00			$

Schedule F.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction for Schedule I)

Name and address of organization	Amount	Name and address of organization (continued)	Amount (continued)
The Disabled American Vet	$ 5.00		$
Omaha Community Chest	25.00		
Nebraska T. B. A'ssn.	5.00		
March of Dimes	10.00		
Nebraska Society for crippled children	4.00		
		Total (enter in column 7, Schedule I)	$ 49.00

16—66155-2

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[fol. 45]

Other Deductions—Line 24—Page 1.

Arthur Murray Dance Studio—Omaha, Lincoln and Sioux City.

For the Year Ended March 31, 1950.

Description	Amount
Royalties to Arthur Murray	$14,108.70
Advertising	11,839.66
Records	1,139.08
Instructors supplies	168.16
Office stationery and supplies	1,765.03
Insurance	414.88
Maintenance	1,200.00
Heat, light and power	1,168.58
Telephone and telegraph	2,439.36
Professional services	2,621.00
Automobile expense	617.33
Travel and convention costs	2,295.00
Club dues and entertainment	1,523.09
Contests, party and ball entertainment for the students	797.46
Dues and subscriptions	152.18
Miscellaneous	2,140.15
Tuition paid other schools	592.00
Cost of training instructors	1,204.72
Cost of aid received from Denver, Colorado, Arthur Murray Dance Studio	1,240.59
Loss on special class courses	185.00
	$47,611.97

Schedule of Depreciation—Automobiles.

Description	Cost	Depreciation Allowed Prior Years	Remaining Cost	Depreciation Allowable This Year
Cadillac*	$4,014.40	$1,115.10	$2,899.30	$1,253.72
Ford	1,975.00	-0-	1,975.00	219.44
	$5,989.40	$1,115.10	$4,874.30	$1,473.16

* Note—Auto sold November 1949.

Schedule G.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS. (See Instructions 27 28)

1. Kind of property (If necessary, attach statement of descriptive details not shown below)	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (explain in Schedule D)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS						
			$	$	$	$
1. Totals			$	$	$	$

2. Net short-term gain or loss other than from other partnerships and from common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 1) $

3. Enter share of net short-term gain or loss from other partnerships and from common trust funds

4. Enter here and also as item 27, page 1, the sum of gains or losses, or difference between gain and loss, shown in lines 2 and 3 $

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation allowed	6. Cost or other basis	7. Expense of sale
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS						
Automobile	6/48	3/8/50	$ 2,200 00	$ 2,368 82	$ 4,014 40	$ -0-
5. Totals			$ 2,200 00	$ 2,368 82	$ 4,014 40	$ -0-

6. Net long-term gain or loss other than from other partnerships and from common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 5) $ 554 42

7. Enter the full amount of share of net long-term gain or loss from other partnerships and from common trust funds -0-

8. Enter here and also as item 28, page 1, the sum of gains or losses, or difference between gain and loss, shown in lines 6 and 7 $ 554 42

[fol. 46]

QUESTIONS

1. Date of organization June 18, 1946

2. If this is the organization's first return, indicate whether (*a*) completely new business ☐, or (*b*) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐, or (3) sole proprietorship ☐, or (4) other (indicate)

   If successor to previously existing business give name and address of the previous business organization

3. Nature of organization (partnership, syndicate, pool, joint venture, etc.) Partnership

4. Was a return of income filed for preceding year? Yes If so, to which collector's office was it sent? Omaha.

5. Check whether this return was prepared on the cash ☐ or accrual [X] basis.

6. State whether inventories at the beginning and end of the taxable year were valued at (*a*) cost, or (*b*) cost or market whichever is lower

   If any other basis is used, attach statement describing basis fully, state why used and the date inventory was last reconciled with stock

7. Is any member of the partnership the spouse, son, or daughter of any other member? (Answer "Yes" or "No") Yes

8. Did the organization at any time during the taxable year own directly or indirectly any stock of a foreign corporation or of a personal holding company, as defined in section 501 of the Internal Revenue Code? (Answer "Yes" or "No") NO If answer is "Yes," attach list showing name and address of each such corporation and amount of stockholdings.

9. Was return of information on Forms 1096 and 1099, or Form W-2a, filed for the calendar year 1949? Yes (See Instruction H.)

Schedule H.—BALANCE SHEETS

ASSETS	Beginning of taxable year — Amount	Beginning of taxable year — Total	End of taxable year — Amount	End of taxable year — Total
1. Cash		$ 8,822 78		$ 21,926 96
2. Notes and accounts receivable (less reserve)		8,007 79		19,099 17
3. Inventories				
4. Investments				
5. Depreciable assets	$ 19,280 96		$ 20,246 59	
Less: Reserve for depreciation	7,428 52	11,852 44	10,299 66	9,946 93
6. ~~Land~~ Deferred Charges		290 23		337 39
7. Other assets		25,101 60		32,739 79
8. Total assets		$ 54,074 84		$ 84,050 24
LIABILITIES				
9. Accounts payable		$ 1,502 23		$ 575 90
10. Notes and mortgages payable		36 00		
11. Accrued expenses		1,558 09		3,463 03
12. ~~Other liabilities~~ Deferred Income		35,204 04		61,711 87
13. Partners' capital accounts:				
(a)	$		$	
(b) Mark E. Schlude	7,887 24		8,984 55	
(c)				
(d) Marzalie Schlude	7,887 24		9,314 89	
(e)				
(f)		15,774 48		18,299 44
14. Total liabilities		$ 54,074 84		$ 84,050 24

Schedule I.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule I)

1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another collection district, specify district	2. Percentage of time devoted to business	3. Ordinary net income (item 26, page 1) less any partially tax-exempt interest included in item 7, page 1	4. Partially tax-exempt interest included in item 7, page 1
(a)		$	$
(b) Mark E. Schlude - Omaha	100%	9,908 22	
(c)			
(d) Marzalie Schlude - Omaha	100%	9,908 22	
(e)			
(f)			
Totals		$ 19,816 44	$

CONTINUATION OF SCHEDULE I

	5. Net short-term gain (or loss) from sale or exchange of capital assets (from item 27, page 1)	6. Net long-term gain (or loss) from sale or exchange of capital assets (from item 28, page 1)	7. Charitable contributions (from Schedule F)	8. Federal income tax paid at source (2 percent of item 6, page 1)	9. Income and profits taxes paid to a foreign country or United States possession
(a)	$	$	$	$	$
(b)		277 21	24 50		
(c)					
(d)		277 21	24 50		
(e)					
(f)					
Totals	$	$ 554 42	$ 49 00	$	$

DECLARATION (See Instruction D)

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

[illegible signature] 7/3/50 Mark E Schlude 7/3/50

(Signature of person (other than partner or member) preparing return) (Date) (Partner or member) (Date)

120 N. 36th St. Apt 11

(Name of firm or employer, if any) (Address of partner or member)

FORM 1065
U. S. Treasury Department
Internal Revenue Service

UNITED STATES

PARTNERSHIP RETURN OF INCOME

Page 1

1950

(To Be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

For Calendar Year 1950 or other taxable years ending after Sept. 30, 1950, but before Dec. 31, 1951

or fiscal year beginning April 1, 1950, and ending March 31, 1951

(File this return with the Collector of Internal Revenue not later than the 15th day of the 3d month following the close of the taxable year)

Do Not Use These Spaces
File Code
Serial No.
District
(Date Received)

(PRINT PLAINLY NAME AND BUSINESS ADDRESS OF THE ORGANIZATION)

ARTHUR MURRAY DANCE STUDIO
(Name)

309 South 19th Street
(Street and number)

OMAHA (City, town, or post office) NEBRASKA (Postal zone number) (State)

Principal business activity (see Instruction J) Instruction of Ballroom Dancing

GROSS INCOME

Item and Instruction No.				
1.	Gross receipts from business or profession		$147,589 15	
2.	Less cost of goods sold			
	(a) Inventory at beginning of year	$		
	(b) Merchandise bought for sale			
	(c) Cost of labor, supplies, etc			
	(d) Total of lines (a), (b), and (c)	$		
	(e) Less inventory at end of year			
3.	Gross profit (or loss) from business or profession (item 1 less item 2)		$147,589 15	
4.	Income (or loss) from other partnerships, syndicates, pools, etc. (State separately name, address, and amount)			
5.	Interest on bank deposits, notes, corporation bonds, etc. (except interest to be reported in item 6)		882 69	
6.	Interest on tax-free covenant bonds upon which a Federal tax was paid at source			
7.	Interest on Government obligations, etc., unless wholly exempt from tax			
8.	Rents			
9.	Royalties			
10.	Net gain (or loss) from sale or exchange of property other than capital assets (from line 2, Schedule A)			
11.	Dividends			
12.	Other income (state nature of income) Cash Overage		91 32	
13.	Total income in items 3 to 12			$148,563 16

DEDUCTIONS

14.	Salaries and wages (do not include compensation for partners)	$50,302 82	
15.	Rent	9,990 07	
16.	Interest on indebtedness (explain in Schedule E; do not include interest on capital invested in the business by any partner)		
17.	Taxes (explain in Schedule B)	2,294 97	
18.	Losses by fire, storm, shipwreck, or other casualty, or theft (submit schedule)		
19.	Bad debts (explain in Schedule C) Employees Cash Advances	35 00	
20.	Depreciation (explain in Schedule D)	4,761 77	
21.	Repairs	884 51	
22.	Amortization of emergency facilities (attach statement)		
23.	Depletion of mines, oil and gas wells, timber, etc. (submit schedule)		
24.	Other deductions authorized by law (explain in Schedule E)	55,082 17	
25.	Total deductions in items 14 to 24		123,351 31
26.	Ordinary net income (item 13 less item 25)		$25,211 85
27.	Net short-term capital gain (or loss) (from line 4, Schedule G)		$
28.	Net long-term capital gain (or loss) (from line 8, Schedule G)		$

[fol. 47] 50 EXHIBIT 3-C TO STIPULATION OF FACTS

EXHIBIT 3-C

2-1

Schedule A.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS
(See Instruction 10)

1. Kind of property	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (explain in Schedule D)	6. Cost or other basis and cost of subsequent improvements (if not purchased attach explanation)	7. Expense of sale
			$	$	$	$
1. Totals			$	$	$	$

2. Total net gain or loss (columns 4 plus 5 minus the sum of columns 6 and 7). Enter as item 10, page 1 $

Schedule B.—TAXES. (See Instruction 17)

Nature	Amount	Nature (continued)	Amount (continued)
Payroll taxes	$ 1,895 25		$
Personal property taxes	399 72		
		Total (enter as item 17, page 1)	$ 2,294 97

Schedule C.—BAD DEBTS. (See Instruction 19)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	If organization carried a reserve: 5. Gross amount added to reserve	6. Amount charged against reserve
1947	$	$	$	$	$
1948					
1949					
1950					

NOTE.—Check whether deduction claimed represents debts which have become worthless [ ], or is an addition to a reserve [ ]

Schedule D.—DEPRECIATION. (See Instruction 20)

1. Kind of property (if buildings, state material of which constructed)	2. Date acquired	3. Cost or other basis (do not include land or other nondepreciable property)	4. Assets fully depreciated in use at end of year	5. Depreciation allowed (or allowable) in prior years	6. Remaining cost or other basis to be recovered	7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year
Music Equipment	[illegible]	$2138 99		$1357 71		2yrs.		$ 496 86
Automobiles	[illegible]	8908 31		219 44		3yrs.		1398 69
Furniture&fixtures	[illegible]	13628 91		4930 16		5yrs.		2597 83
Leasehold improvements		4138 52		3792 35		2yrs.		~~269 39~~
Total (enter as item 20, page 1)								4761 77

Schedule E.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 16 AND 24

1. Item No.	2. Explanation	3. Amount	1. Item No. (continued)	2. Explanation (continued)	3. Amount (continued)
		$			$

Schedule F.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction for Schedule J)

Name and address of organization	Amount	Name and address of organization (continued)	Amount (continued)
American Red Cross	$ 55 00	Knights of Columbus	$ 10 00
Nebr. Div. of Cancer Society	10 00	Nebr. T. B. ASSOC.	5 00
Veterans of Foreign Wars	10 00	Goodfellows Charities	50 00
Disabled American Vets	10 00	Nebr. Society for Crippled Children	20 00
Sister E. Henning	10 00	March of Dimes	10 00
Omaha Community Chest	25 00		
Kiawanis Club of Dundee	10 00	Total (enter in column 7, Schedule J)	$ 225 00

[redacted]

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Schedule G.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS. (See Instructions 27-29)

1. Kind of property (if necessary attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (explain in Schedule D)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS						
			$	$	$	$
1 Totals			$	$	$	$

2 Net short-term gain or loss other than from other partnerships and from common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 1) $

3 Enter share of net short-term gain or loss from other partnerships and from common trust funds

4 Enter here and also as item 27, page 1, the sum of gains or losses, or difference between gain and loss, shown in lines 2 and 3 $

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation	6. Cost or other basis	7. Expense of sale
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS						
			$	$	$	$
5 Totals			$	$	$	$

6 Net long-term gain or loss other than from other partnerships and from common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 5) $

7 Enter the full amount of share of net long term gain or loss from other partnerships and from common trust funds

8 Enter here and also as item 28, page 1, the sum of gains or losses, or difference between gain and loss, shown in lines 6 and 7 $

QUESTIONS

1 Date of organization June 18, 1946

2 If this is the organization's first return, indicate whether (a) completely new business ☐, or (b) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐ or (3) sole proprietorship ☐, or (4) other (indicate)

If successor to previously existing business, give name and address of the previous business organization

3 Nature of organization (partnership, syndicate, pool, joint venture, etc.) Partnership

4 Was a return of income filed for preceding year? Yes If so, to which collector's office was it sent? Omaha

5 Check whether this return was prepared on the cash ☐ or accrual ☒ basis

6 State whether inventories at the beginning and end of the taxable year were valued at (a) cost, or (b) cost or market, whichever is lower

If any other basis is used, attach statement describing basis fully, state why used and the date inventory was last reconciled with stock

7 Is any member of the partnership the spouse, son, or daughter of any other member? (Answer "Yes" or "No") Yes

8 Did the organization at any time during the taxable year own directly or indirectly any stock of a foreign corporation or of a personal holding company, as defined in section 501 of the Internal Revenue Code? (Answer "Yes" or "No") No If answer is "Yes," attach list showing name and address of each such corporation and amount of stockholdings

9 Was return of information on Forms 1096 and 1099, or Form W-2a, filed for the calendar year 1950? Yes (See Instruction H.)

Schedule H.—BALANCE SHEETS

	Beginning of taxable year: Amount	Beginning of taxable year: Total	End of taxable year: Amount	End of taxable year: Total
ASSETS				
1. Cash		$21,926 96		$28,106 78
2. Notes and accounts receivable (less reserve)		19,099 17		24,328 09
3. Inventories				
4. Investments				
5. Depreciable assets	$20,246 59		$28,814 73	
Less: Reserve for depreciation	10,299 66	9,946 93	15,061 43	13,753 30
6. ~~Land~~ Deferred Expense		337 39		840 51
7. Other assets		32,739 79		35,217 05
8. Total assets		$84,050 24		102,246 63
LIABILITIES				
9. Accounts payable		$ 575 90		$ 1,958 46
10. ~~Notes and mortgages payable~~ Deferred Income		61,711 87		75,628 70
11. Accrued expenses		3,463 03		1,047 02
12. Other liabilities				1,766 20
13. Partners' capital accounts:				
(a)	$		$	
(b) Mark E. Schlude	8,984 55		10,702 99	
(c)				
(d) Margalie Schlude	9,314 89		11,143 26	
(e)		18,299 44		21,846 25
14. Total liabilities		$ 84,050 24		$102,246 63

Schedule I.—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS

	Capital account at beginning of year	Ordinary net income	Capital gains and nontaxable income	Additional capital contributed during year	Unallowable deductions	Withdrawals	Capital account at end of year
(a)	$	$	$	$	$	$	$
(b)	8,984 55	12,605 93		2,221 10	112 50	12,996 09	10,702 99
(c)							
(d)	9,314 89	12,605 92		2,221 11	112 50	12,886 16	11,143 26
(e)							

Schedule J.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule J)

	1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another collection district, specify district	2. Percentage of time devoted to business	3. Ordinary net income (item 26, page 1) less any partially tax-exempt interest included in item 7, page 1	4. Partially tax-exempt interest included in item 7, page 1
(a)			$	$
(b)	Mark E. Schlude	Full	12,605 93	
(c)				
(d)	Margalie Schlude	Full	12,605 92.	
(e)				
Totals			$	$

CONTINUATION OF SCHEDULE J

	5. Net short-term gain (or loss) from sale or exchange of capital assets (from item 27, page 1)	6. Net long-term gain (or loss) from sale or exchange of capital assets (from item 28, page 1)	7. Charitable contributions (from Schedule F)	8. Federal income tax paid at source (2 percent of item 6, page 1)	9. Income and profits taxes paid to a foreign country or United States possession
(a)	$	$	$	$	$
(b)			112 50		
(c)					
(d)			112 50		
(e)					
Totals	$	$	$ 225 00	$	$

DECLARATION (See Instruction D)

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

[signature] 7-23-51

(Signature of person (other than partner or member) preparing return) (Date) (Signature of partner or member) (Date)

(Name of firm or employer, if any) (Address of partner or member)

[fol. 48]

Arthur Murray Dance Studio

For the Year Ended March 31, 1951

Description	Amount
Royalties to Arthur Murray, Inc.	$15,885.12
Advertising	15,075.66
Records	517.04
Instructors supplies	298.08
Office stationery & supplies	1,640.21
Insurance	457.64
Janitor Service	1,200.00
Heat, light, and power	1,200.94
Telephone & Telegraph	3,099.57
Professional Services	3,491.45
Automobile expenses	728.91
Travel & Convention expenses	4,057.41
Club dues & entertainment	1,959.46
Contests and Party Entertainment	1,029.50
Dues & Subscriptions	56.37
Miscellaneous expenses	2,633.71
Tuition paid other Arthur Murray Dance Studios	751.10
Cost of training instructors (including rent of training quarters)	1,000.00
	$55,082.17

FORM 1065
U. S. Treasury Department
Internal Revenue Service

U. S. PARTNERSHIP RETURN OF INCOME

1951

(To Be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

For Calendar Year 1951

or taxable year beginning April 1 1951, and ending March 31 1952

Do Not Write in These Spaces

5— PN 25417
Serial No.
(Date Received)

RECEIVED
FEB 5 1953
DIR. INT. REV.
OMAHA

47

(PRINT PLAINLY NAME AND BUSINESS ADDRESS OF THE ORGANIZATION)

ARTHUR MURRAY DANCE STUDIO
(Name)

309 South 19th Street
(Street and number)

Omaha — Nebraska
(City, town, or post office) (Postal zone number) (State)

Principal business activity (see Instruction J) Instruction of Ballroom Dancing

Item and Instruction No.				
	GROSS INCOME			
1.	Gross receipts from business or profession		$ 170,811.03	
2.	Less cost of goods sold:			
	(a) Inventory at beginning of year	$		
	(b) Merchandise bought for sale			
	(c) Cost of labor, supplies, etc			
	(d) Total of lines (a), (b), and (c)	$		
	(e) Less inventory at end of year			
3.	Gross profit (or loss) from business or profession (item 1 less item 2)		$ 170,811.03	
4.	Income (or loss) from other partnerships, syndicates, pools, etc (State separately name, address, and amount):			
5.	Dividends			
6.	Interest on bank deposits, notes, corporation bonds, etc. (except interest to be reported in item 7)		4,041.21	
7.	Interest on tax-free covenant bonds upon which a Federal tax was paid at source			
8.	Interest on Government obligations, etc., unless wholly exempt from tax			
9.	Rents			
10.	Royalties			
11.	Net gain (or loss) from sale or exchange of property other than capital assets (from line 2, Schedule A (2))			
12.	Other income. (State nature of income):			
13.	Total income in items 3 to 12			$ 174,852.24
	DEDUCTIONS			
14.	Salaries and wages. (Do not include compensation for partners)		$ 57,539.09	
15.	Rent		10,155.89	
16.	Interest on indebtedness. (Explain in Schedule B. Do not include interest on capital invested in the business by any partner)			
17.	Taxes. (Explain in Schedule C)		1,983.29	
18.	Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)			
19.	Bad debts. (Explain in Schedule D)			
20.	Depreciation. (Explain in Schedule E)		7,134.38	
21.	Repairs		1,321.80	
22.	Amortization of emergency facilities. (Attach statement)			
23.	Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)			
24.	Other deductions authorized by law. (Explain in Schedule F)		59,133.46	
25.	Total deductions in items 14 to 24			137,267.91
26.	Ordinary net income (item 13 less item 25)			$ 37,584.33
27.	Net short-term capital gain (or loss) (from line 3, Schedule A (1))			$ (4.06)
28.	Net long-term capital gain (or loss) (from line 6, Schedule A (1))			$ 343.79

[fol. 49] EXHIBIT 4 D to STIPULATION OF FACTS

EXHIBIT 4-D

7-1

10

Schedule A.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

(1) CAPITAL ASSETS. (See Instructions 27-28)

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less the sum of columns 6 and 7)
SHORT TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS							
1. Trust Escrow Fund			$	$	$	$	$
Arthur Murray, Inc. Escrowee							
Sale of U.S. Bonds							(4.06)
2. Enter share of net short-term gain or loss from other partnerships and from common trust funds							
3. Enter here the sum of short-term gains or losses or difference between short-term gains and losses shown above. Also enter as item 27, page 1, and in column 5, Schedule K							$ (4.06)
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD MORE THAN 6 MONTHS							
4. Trust Escrow Fund			$	$	$	$	$
Arthur Murray, Inc. Escrowee							
Sale of U.S. Bonds							102.79
Coke Machine	2-48	4-51	50.00	133.00	210.00		(27.00)
Sale of Cadillac	10-50	7-51	3,600.00	1,110.21	4,442.21		268.00
5. Enter the full amount of share of net long-term gain or loss from other partnerships and from common trust funds							
6. Enter here the sum of long-term gains or losses or the difference between long-term gains and losses shown above. Also enter as item 28, page 1, and in column 6, Schedule K							$ 343.79

(2)—PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 11)

1.			$	$	$	$	$
2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter as item 11, page 1							$

Schedule B.—INTEREST ON INDEBTEDNESS. (See Instruction 16)

Explanation	Amount	Explanation (continued)	Amount (continued)
	$		$
		Total (enter as item 16, page 1)	$

Schedule C.—TAXES. (See Instruction 17)

Nature	Amount	Nature (continued)	Amount (continued)
Payroll Taxes	$ 1,624.67		$
Personal Property Taxes	358.62		
		Total (enter as item 17, page 1)	$ 1,983.29

Schedule D.—BAD DEBTS. (See Instruction 18)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	If organization has carried a reserve: 5. Gross amount added to reserve	6. Amount charged against reserve
1948	$	$	$	$	$
1949					
1950					
1951					

NOTE.—Check whether deduction claimed represents debts which have become worthless ☐, or is an addition to a reserve ☐.

156.50 Other Deductions—Schedule F, Page 3

Arthur Murray Dance Studio.

For the Year Ended March 31, 1952

Description	Amount
Royalties to Arthur Murray, Inc.	$19,066.83
Advertising	15,636.39
Records	910.92
Instructors Supplies	125.00
Office Stationery and Supplies	1,627.18
Insurance	635.52
Janitor Service	1,200.00
Heat, Light and Power	1,246.09
Telephone and Telegraph	3,455.32
Professional Services	2,370.00
Automobile Expense	1,384.71
Travel and Conventions	2,823.86
Club Dues and Entertainment	3,086.49
Contests and Party Entertainment	1,855.35
Dues and Subscriptions	212.85
Miscellaneous Expenses	2,157.78
Tuition Paid Other Arthur Murray Dance Studios	825.00
Cost of Training Instructors (Including rent of Training Quartets)	525.00
Cash over short	48.57
Total	$59,133.46

fol 51

[illegible] Contributions or Gifts Paid, Schedule G, P[illegible]

Arthur Murray Dance Studio

For the Year Ended March 31, 195[illegible]

Name	Amount
American Cancer Society	$ 15.00
St. Catherines Hospital	5.00
Veterans of Foreign Wars	20.00
Disabled American Vet	10.00
American War Dads	5.00
Sister Elizabeth Kenny Foundation	10.00
Omaha Community Chest	50.00
Nebraska T. B. Association	10.00
Father Flanigans Boys Home	5.00
The Nebraska Society for Crippled Children	15.00
American Red Cross	20.00
Knights of Columbus	10.00
National War Casualties	[illegible]
Total	$178.00

Schedule E.—DEPRECIATION. (See Instruction 20)

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
Music Machines	Various	$ 2,344.45	$ 1,853.57	$	2 yrs.		$ 278.94
Automobiles	Various	10,700.00	-0-		3 yrs.		3,480.41
Furniture & Fixtures.	Various	13,708.76	7,394.99		5 yrs.		2,524.56
Leasehold Improvements	Various	8,396.56	4,061.74		Various		850.47
Total (enter as item 20, page 1)							$7,134.38

Schedule F.—OTHER DEDUCTIONS. (See Instruction 24)

1. Explanation	Amount	Explanation (continued)	Amount (continued)
SEE SCHEDULE ATTACHED	$		$
		Total (enter as item 24, page 1)	$

Schedule G.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction for Schedule K)

Name and address of organization	Amount	Name and address of organization (continued)	Amount (continued)
SEE ATTACHED SCHEDULE	$		$
		Total (enter in column 7, Schedule K)	$

Schedule H.—COMPUTATION OF NET EARNINGS FROM SELF-EMPLOYMENT. (See Instructions for Schedule H)

1	Ordinary net income increased by casualty losses (item 26 plus item 18, page 1, but do not include any income from excluded services)		$ 37,584.33
2	Less: Portion of item 4, page 1, which does not constitute net earnings from self-employment	$	
3	Dividends from item 5, page 1		
4	Interest on corporation bonds and Government obligations, etc., included in items 6, 7, and 8, page 1		
5	Net rentals from real estate (item 9, page 1, less allowable deductions)	4,041.21	
6	Net gain (or loss) from item 11, page 1		4,041.21
7	Net earnings from self-employment (Enter in column 10, Schedule K)		$ 33,543.12

QUESTIONS

1. Date of organization June 18, 1946
2. If this is the organization's first return, indicate whether (a) completely new business ☐, or (b) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐, or (3) sole proprietorship ☐, or (4) other (indicate)

   If successor to previously existing business, give name and address of the previous business organization
3. Nature of organization (partnership, syndicate, pool, joint venture, etc.) Partnership
4. Was a return of income filed for preceding year? Yes If so, to which collector's office was it sent? Omaha
5. Check whether this return was prepared on the cash ☐ or accrual ☒ basis
6. State whether inventories at the beginning and end of the taxable year were valued at (a) cost, or (b) cost or market whichever is lower Not Applicable

   If any other basis is used, attach statement describing basis fully, state why used and the date inventory was last reconciled with stock
7. Is any member of the partnership the spouse, son, or daughter of any other member? (Answer "Yes" or "No") Yes
8. Did the organization at any time during the taxable year own directly or indirectly any stock of a foreign corporation or of a personal holding company, as defined in section 501 of the Internal Revenue Code? (Answer "Yes" or "No") No If answer is "Yes," attach list showing name and address of each such corporation and amount of stockholdings
9. Was return of information on Forms 1096 and 1099, or Form W-2a, filed for the calendar year 1951? (See Instruction H) Yes

13 95

Schedule I.—BALANCE SHEETS

ASSETS	Beginning of taxable year: Amount	Beginning of taxable year: Total	End of taxable year: Amount	End of taxable year: Total
1. Cash		$ 28,106.78		$ 38,292.42
2. Notes and accounts receivable (less reserve)		24,328.99		37,927.23
3. Inventories				
4. Investments				
5. Depreciable assets	$ 28,814.73		$ 35,149.77	
Less: Reserve for depreciation	15,061.43	13,753.30	20,074.83	15,074.94
6. XXXXX DEFERRED EXPENSE		840.51		983.09
7. Other assets		35,217.05		38,308.97
8. Total assets		$ 102,246.63		$ 130,586.65
LIABILITIES				
9. Accounts payable		$ 1,958.46		$ 2,698.82
10. XXXXXXXXXXXXXXXXXXXX DEFERRED INCOME		75,628.70		105,443.92
11. Accrued expenses		1,047.02		2,092.36
12. Other liabilities		1,766.20		2,540.40
13. Partners' capital accounts:				
(a)	$		$	
(b) Mark E. Schlude	10,702.99		8,804.79	
(c)				
(d) Marzalie Schlude	11,143.26		9,006.36	
(e)		21,846.25		17,811.15
14. Total liabilities		$ 102,246.63		$ 130,586.65

Schedule J.—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS

	1. Capital account at beginning of year	2. Ordinary net income	3. Capital gains and nontaxable income	4. Additional capital contributed during year	5. Capital losses and unallowable deductions	6. Withdrawals	7. Capital account at end of year
(a)	$	$	$	$	$	$	$
(b)	10,702.99	18,792.16	171.90		91.03	20,771.23	8,804.79
(c)							
(d)	11,143.26	18,792.17	171.89		91.03	21,009.93	9,006.36
(e)							

Schedule K.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule K)

	1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another collection district, specify district	2. Percentage of time devoted to business	3. Ordinary net income (item 20, page 1) less any partially tax exempt interest included in item 5, page 1	4. Partially tax exempt interest included in item 5, page 1
(a)			$	$
(b)	Mark E. Schlude	Full	18,792.16	
(c)				
(d)	Marzalie Schlude	Full	18,792.17	
(e)				
Totals			$ 37,584.33	$

Continuation of Schedule K

	5. Net short term gain (or loss) from sale or exchange of capital assets (from line 3, Schedule A)	6. Net long term gain (or loss) from sale or exchange of capital assets (from line 6, Schedule A)	7. Charitable contributions (from Schedule B)	8. Federal income tax paid at source (2 percent of item 7, page 1)	9. Income and profits taxes paid to a foreign country or United States possession	10. Net earnings from self employment (from line 7, Schedule H, page 2)
(a)	$	$	$	$	$	$
(b)	(2.03)	171.90	89.00			
(c)						
(d)	(2.03)	171.89	89.00			
(e)						
Totals	$ (4.06)	$ 343.79	$ 178.00	$	$	$

DECLARATION (See Instruction D)

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

[illegible] 1-29-53 — Marzalie Schlude 1-29-53

(Signature of person (other than partner or member) preparing return) (Date) (Signature of partner or member) (Date)

[illegible] 17th

(Name of firm or employer, if any) ☆ U. S. GOVERNMENT PRINTING OFFICE 16—68428-1 (Address of partner or member)

FORM 1065
U. S. Treasury Department
Internal Revenue Service

U. S. PARTNERSHIP RETURN OF INCOME

1952

(To Be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

For Calendar Year 1952

or taxable year beginning April 1 1952, and ending Mar. 31, 1953

(PRINT PLAINLY NAME AND BUSINESS ADDRESS OF THE ORGANIZATION)

Arthur Murray Dance Studio
(Name)

309 So. 19th Street
(Street and number)

Omaha (City, town, or post office) (Postal zone number) Nebraska (State)

Principal business activity (see Instruction J) Instruction of Ballroom Dancing

Do Not Write In These Spaces
Serial FN 833
(Date Received)

RECEIVED
JUL 28 1953
47 DIR. INT. REV.
OMAHA

GROSS INCOME

Item and Instruction No.				
1.	Gross receipts from business or profession		$ 266088 55	
2.	Less cost of goods sold:			
	(a) Inventory at beginning of year	$		
	(b) Merchandise bought for sale			
	(c) Cost of labor, supplies, etc			
	(d) Total of lines (a), (b), and (c)	$		
	(e) Less inventory at end of year			
3.	Gross profit (or loss) from business or profession (item 1 less item 2)		$266,088 55	
4.	Income (or loss) from other partnerships, syndicates, pools, etc. (State separately name, address, and amount):			
5.	Dividends			
6.	Interest on bank deposits, notes, corporation bonds, etc. (except interest to be reported in item 7)		8,098 50	
7.	Interest on tax-free covenant bonds upon which a Federal tax was paid at source			
8.	Interest on Government obligations, etc., unless wholly exempt from tax			
9.	Rents			
10.	Royalties			
11.	Net gain (or loss) from sale or exchange of property other than capital assets (from line 2, Schedule A (2))			
12.	Other income. (State nature of income):			
13.	Total income in items 3 to 12			$ 274,187 05

DEDUCTIONS

14.	Salaries and wages. (Do not include compensation for partners)	$98,602 14	
15.	Rent	14,296 96	
16.	Interest on indebtedness. (Explain in Schedule B. Do not include interest on capital invested in the business by any partner)		
17.	Taxes. (Explain in Schedule C)	2,496 30	
18.	Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)		
19.	Bad debts. (Explain in Schedule D)		
20.	Depreciation. (Explain in Schedule E)	8,007 01	
21.	Repairs		
22.	Amortization of emergency facilities. (Attach statement)		
23.	Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)		
24.	Other deductions authorized by law. (Explain in Schedule F)	99,988 28	
25.	Total deductions in items 14 to 24		223,390 69
26.	Ordinary net income (item 13 less item 25)		$ 50,796 36
27.	Net short-term capital gain (or loss) (from line 3, Schedule A(1))		$
28.	Net long-term capital gain (or loss) (from line 6, Schedule A(1))		$ 1,991 80

[fol. 33] EXHIBIT 5-E TO STIPULATION OF FACTS

EXHIBIT 5-E

R-1

Schedule A.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

(1) CAPITAL ASSETS. (See Instructions 27–28)

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less the sum of columns 6 and 7)
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS							
1.			$	$		$	$
2. Enter share of net short-term gain or loss from other partnerships and from common trust funds							
3. Enter here the sum of short-term gains or losses or difference between short-term gains and losses shown above. Also enter as item 27, page 1, and in column 5, Schedule K							$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD MORE THAN 6 MONTHS							
4. Cadillac Conv.	5-51	5-52	$3775 00	$1134 70	$4085 00	$	$ 824 70
Jaguar	5-51	2-53	3000 00	2291 00	4123 90		1167 10
5. Enter the full amount of share of net long-term gain or loss from other partnerships and from common trust funds							1991 80
6. Enter here the sum of long-term gains or losses or the difference between long-term gains and losses shown above. Also enter as item 28, page 1, and in column 6, Schedule K							$

(2)—PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 11)

1.			$	$	$	$	$
2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter as item 11, page 1							$

Schedule B.—INTEREST ON INDEBTEDNESS. (See Instruction 16)

Explanation	Amount	Explanation (continued)	Amount (continued)
	$		$
		Total (enter as item 16, page 1)	$

Schedule C.—TAXES. (See Instruction 17)

Nature	Amount	Nature (continued)	Amount (continued)
Payroll Taxes	$ 2037 16		$
General Taxes	459 14		
		Total (enter as item 17, page 1)	$ 2496 30

Schedule D.—BAD DEBTS. (See Instruction 19)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	If organization carried a reserve— 5. Gross amount added to reserve	6. Amount charged against reserve
1949	$	$	$	$	$
1950					
1951					
1952					

NOTE.—Check whether deduction claimed represents debts which have become worthless [ ], or is an addition to a reserve [ ].

Contributions or Gifts Paid—Schedule G, Page 3.

Arthur Murray Dance Studio.

For the Year Ended March 31, 1953.

Name	Amount
American Cancer Society	$ 5.00
Flood Relief—Omaha, Nebraska	51.70
Boys Town	5.00
Disabled American Vet	20.00
Sister Kenny Foundation	20.00
Immanuel Deaconess Institute	10.00
Community Chest	60.00
National War Casualties	11.00
Father Flannigan	5.00
Nebraska T. B. Association	5.00
Salvation Army	5.00
March of Dimes	10.00
Red Cross	35.00
National Society for Crippled Children	20.00
Veterans of Foreign Wars	10.00
	$272.70

[fol. 55]

Other Deductions—Schedule F, Page 3.

Arthur Murray Dance Studio.

For the Year Ended March 31, 1953.

Description	Amount
Royalties to Arthur Murray, Inc.	$30,657.21
Advertising	30,998.13
Automobile Expense	934.64
Instructors' Supplies	617.72
Office Stationery & Supplies	1,726.15
Records	1,050.83
Travel and Convention	3,340.15
Insurance	917.21
Club Dues and Entertainment	1,697.64
Repairs & Maintenance and Janitor Service	3,514.38
Heat, Light & Power	2,001.16
Telephone and Telegraph	5,322.40
Professional Services	3,431.50
Contests, Party and General Promotional	8,375.23
Miscellaneous Expenses	2,599.45
Tuition paid other Arthur Murray Dance Studios	1,328.13
Cost of training instructors (including rent of training quarters)	421.14
Collection Expense	200.00
Bad Debts—Employees	290.00
Cash Over/Short	248.10
Dues and Subscriptions	317.11
	$99,988.28

Kind of property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed in prior years	5.	6. Life used in accumulating depreciation	7.	8. Depreciation allowable for year
Music Machines	Var.	$ 2568 00	2132 51	$	2		$ 180 88
Automobiles	"	11,990 17	830 36		3		3100 62
Furniture & Fixtures	"	17,836 64	9919 55		5		2169 15
Leasehold Improvements	"	19,501 66	4212 22		Var.		2556 36
Total (enter as item 20, page 1)							$8007 01

Schedule F.—OTHER DEDUCTIONS. (See Instruction 24)

Explanation	Amount	Explanation (continued)	Amount (continued)
See Attached Schedule	$		$

Total (enter as item 24, page 1) $99,988 28

Schedule G.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction for Schedule K)

Name and address of organization	Amount	Name and address of organization (continued)	Amount (continued)
See Attached Schedule	$		$

Total (enter in column 7, Schedule K) $ 272 70

Schedule H.—COMPUTATION OF NET EARNINGS FROM SELF-EMPLOYMENT. (See Instructions for Schedule H)

1. Ordinary net income increased by casualty losses (item 26 plus item 16, page 1, but do not include any income from excluded services or sources)		60,796 36
2. Less: Portion of item 4, page 1, which does not constitute net earnings from self-employment	$	
3. Dividends from item 5, page 1		
4. Interest on corporation bonds and Government obligations, etc., included in items 6, 7, and 8, page 1		
5. Net rentals from real estate (item 9, page 1, less allowable deductions)		
6. Net gain (or loss) from item 11, page 1		
7. Net earnings from self-employment. (Enter in column 10, Schedule K)		$60796 36

QUESTIONS

1. Date of organization June 18, 1946
2. If this is the organization's first return, indicate whether (a) completely new business ☐, or (b) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐, or (3) sole proprietorship ☐, or (4) other (indicate) ....
   If successor to previously existing business, give name and address of the previous business organization ....
3. Nature of organization (partnership, syndicate, pool, joint venture, etc.) Partnership
4. Was a return of income filed for preceding year? Yes If so, to which director's (formerly collector's) office was it sent? Omaha
5. Check whether this return was prepared on the cash ☐ or accrual ☒ basis.
6. State whether inventories at the beginning and end of the taxable year were valued at (a) cost, or (b) cost or market whichever is lower Not applicable If any other basis is used, attach statement describing basis fully, state why used and the date inventory was last reconciled with stock ....
7. Is any member of the partnership the wife, son, or daughter of any other member? (Answer "Yes" or "No.") Yes
8. Did the organization at any time during the taxable year own directly or indirectly any stock of a foreign corporation or of a personal holding company, as defined in section 501 of the Internal Revenue Code? (Answer "Yes" or "No.") No If answer is "Yes," attach list showing name and address of each such corporation and amount of stockholdings.
9. Was return of information on Forms 1096 and 1099, or Form W-2a, filed for the calendar year 1952? (See Instruction H.) Yes
10. Did the partnership, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? (Answer "yes" or "no") NO If answer is "Yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts $ .... (See General Instruction K)

6—5

ASSETS	Beginning of taxable year — Amount	Beginning of taxable year — Total	End of taxable year — Amount	End of taxable year — Total
1. Cash		$38,292 42		$51,827 .72
2. Notes and accounts receivable	$37,924 23		$86,698 33	
Less Reserve for bad debts		37,927 23		86,698 33
3. Inventories				
4. Investments				
5. Depreciable assets	$35,149 77		$51,991 47	
Less: Reserve for depreciation	20,074 83	15,074 94	23,956 15	28,035 32
6. ~~Land~~ Deferred Expense		983 09		874 78
7. Other assets		38,308 97		83,822 20
8. Total assets		$130,586 65		$251,258 35
LIABILITIES				
9. Accounts payable		$2,698 82		$4,754 10
10. ~~Notes and mortgages payable~~ Deferred Income		105,443 92		235,942 33
11. Accrued expenses		2,092 36		2,834 40
12. Other liabilities		2,540 40		289 80
13. Partners' capital accounts:				
(a)	$		$	
(b) Mark E. Schlude	8,804 79		2,919 67	
(c)				
(d) Maryalie Schlude	9,006 36		4,518 05	
(e)		17,811 15		7,437 72
14. Total liabilities		$130,586 65		$251,258 35

Schedule J.—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS

	1. Capital account at beginning of year	2. Ordinary net income	3. Capital gains and nontaxable income	4. Additional capital contributed during year	5. Capital losses and unallowable deductions	6. Withdrawals	7. Capital account at end of year
(a)	$	$	$	$	$	$	$
(b)	8,804 79	25,398 18	995 90		136 35	32,142 85	2,919 67
(c)							
(d)	9,006 36	25,398 18	995 90		136 35	30,746 04	4,518 05
(e)							

Schedule K.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule K)

	1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another collection district, specify district	2. Percentage of time devoted to business	3. Ordinary net income (item 26, page 1) less any partially tax exempt interest included in item 8, page 1	4. Partially tax exempt interest (included in item 8, page 1)
(a)			$	$
(b)	Mark E. Schlude	Full	25,398 18	
(c)				
(d)	Maryalie Schlude	Full	25,398 18	
(e)				
Totals			$ 50,796 36	$

Continuation of Schedule K

	5. Net short-term gain (or loss) from sale or exchange of capital assets (from line 3, Schedule A)	6. Net long-term gain (or loss) from sale or exchange of capital assets (from line 6, Schedule A)	7. Charitable contributions (from Schedule C)	8. Federal income tax paid at source (2 percent)	9. Income and profits taxes paid to a foreign country or United States possession	10. Net earnings from self-employment (from line 7, Schedule H, page 3)
(a)	$	$	$			
(b)		995.90	136.35			
(c)						
(d)		995.90	136.35			
(e)						
Totals	$	$ 1991.80	$ 272.70	$	$	$

DECLARATION (See Instruction D)

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

Clifford P. Davis CPA 7/24/1953 — Maryalie Schlude 7/27/53

(Signature of person (other than partner or member) preparing return) (Date) — (Signature of partner or member) (Date)

City National Bank Bldg — 309 So 19th

(Name of firm or employer, if any) — (Address of partner or member)

Omaha, Nebraska

U. S. GOVERNMENT PRINTING OFFICE

K-6

20

U. S. Treasury Department
Internal Revenue Service

U. S. PARTNERSHIP RETURN OF INCOME

(To Be Filed Also by Syndicates, Pools, Joint Ventures, Etc.)

For Calendar Year 1953

or taxable year beginning 4-1, 1953, and ending 3-31, 1954

1953

Do Not Write In These Spaces

RECEIVED

(PRINT PLAINLY NAME AND BUSINESS ADDRESS OF THE ORGANIZATION)

ARTHUR MURRAY DANCE STUDIO
(Name)

309 South 19th Street
(Street and number)

Omaha (City, town, or post office) (Postal zone number) Nebraska (State)

Principal business activity (See Instruction J) Dance Instruction

FICA employer identification number, if any (See General Instruction K) 47-0354832

Number of places of business 6

GROSS INCOME

Item and Instruction No.			
1. Gross receipts from business or profession			$ 370,702.89
2. Less cost of goods sold:			
(a) Inventory at beginning of year	$		
(b) Merchandise bought for sale			
(c) Cost of labor, supplies, etc			
(d) Total of lines (a), (b), and (c)	$		
(e) Less inventory at end of year			
3. Gross profit (or loss) from business or profession (item 1 less item 2)		$	
4. Income (or loss) from other partnerships, syndicates, pools, etc. (State separately name, address, and amount)			
5. Dividends			
6. Interest on bank deposits, notes, corporation bonds, etc. (except interest to be reported in item 7)			
7. Interest on tax-free covenant bonds upon which a Federal tax was paid at source			
8. Interest on Government obligations, etc., unless wholly exempt from tax			
9. Rents			
10. Royalties			
11. Net gain (or loss) from sale or exchange of property other than capital assets (from line 2, Schedule A (2))			
12. Other income. (State nature of income)			
13. Total income in items 3 to 12			$370,702.89

DEDUCTIONS

14. Salaries and wages. (Do not include compensation for partners)	$ 137,245.16	
15. Rent	16,687.50	
16. Interest on indebtedness. (Explain in Schedule B. Do not include interest on capital invested in the business by any partner)		
17. Taxes. (Explain in Schedule C)	4,075.12	
18. Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)		
19. Bad debts. (Explain in Schedule D)		
20. Depreciation. (Explain in Schedule E)	12,259.10	
21. Repairs		
22. Amortization of (a) Emergency facilities. (Attach statement)		
(b) Grain storage facilities. (Attach statement)		
23. Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)		
24. Other deductions authorized by law. (Explain in Schedule F)	131,342.88	
25. Total deductions in items 14 to 24		301,609.76
26. Ordinary net income (item 13 less item 25)		$ 69,093.13
27. Net short-term capital gain (or loss) (from line 3, Schedule A(1))		$
28. Net long-term capital gain (or loss) (from line 6, Schedule A(1))		$

[fol. 57] Exhibit 6-F to Stipulation of Facts

EXHIBIT 6-F

22

Schedule A.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

(1) CAPITAL ASSETS. (See Instructions 27-28)

SHORT TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS

1. Kind of property (if necessary attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less the sum of columns 6 and 7)
1.			$	$	$		$

2. Enter share of net short-term gain or loss from other partnerships and from common trust funds
3. Enter here the sum of short-term gains or losses or difference between short-term gains and losses shown above. Also enter as item 27, page 1, and in column 5, Schedule K. $

LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD MORE THAN 6 MONTHS

4.			$	$	$	$	$

5. Enter the full amount of share of net long-term gain or loss from other partnerships and from common trust funds
6. Enter here the sum of long-term gains or losses or the difference between long-term gains and losses shown above. Also enter as item 28, page 1, and in column 6, Schedule K $

(2)—PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 11)

1.			$	$	$	$	$

2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter as item 11, page 1 $

Schedule B.—INTEREST ON INDEBTEDNESS. (See Instruction 16)

Explanation	Amount	Explanation (continued)	Amount (continued)
	$		$

Total (enter as item 16, page 1) $

Schedule C.—TAXES. (See Instruction 17)

Nature	Amount	Nature (continued)	Amount (continued)
Payroll Taxes	$ 3,319.29		$
General Taxes as Property Taxes and Licenses	755.83		
	4,075.12		

Total (enter as item 17, page 1) $

Schedule D.—BAD DEBTS. (See Instruction 19)

1. Taxable year	2. Net income reported	3. Sales on account	4. Bad debts of organization if no reserve is carried on books	If organization carried a reserve: 5. Gross amount added to reserve	6. Amount charged against reserve
1950	$	$	$	$	$
1951					
1952					
1953					

NOTE.—Check whether deduction claimed represents debts which have become worthless ☐, or is an addition to a reserve ☐.

2-3

A-2

Other Deductions.

[fol. 58]

Arthur Murray School of Dancing.

For the Year Ended March 31, 1954.

Description		
Royalties paid to Arthur Murray, Inc., New York, N. Y.		$ 35,633.05
Advertising		
Radio	$12,405.82	
Newspaper	12,588.99	
Television	14,276.01	
Other	7,427.72	46,698.54
Music Records		711.74
Instructors' Supplies		1,876.63
Office Stationery, Printing and Supplies		5,118.67
Insurance		928.49
Automobile Expenses		1,254.12
Travel and Convention Expense		4,705.11
Club Dues and Entertainment		2,038.54
Contests, Student Parties and General Promotional		5,167.71
Repairs and Maintenance		4,701.05
Heat, Light & Power		3,100.85
Telephone and Telegraph		6,173.86
Professional Services		6,821.73
Dues and Subscriptions		325.45
Miscellaneous		4,163.41
Transfer Hours Paid Other Arthur Murray Dance Schools		1,955.32
Cost of Training		16.00
Cash Short		12.61
		$151,342.88

Schedule E.—DEPRECIATION. (See Instruction 20)

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property.	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
Music Equipment	Various	$ 4,275.31	$ 2,313.39		Various		$ 487.68
Automobiles	"	15,999.97	3,930.98		"		3,718.87
Furniture & Fixtures	"	20,749.07	12,088.70		"		2,408.84
Leasehold Improvements	"	32,016.49	6,768.58		"		5,643.71
Total (enter as item 20, page 1)							$ 12,259.10

Schedule F.—OTHER DEDUCTIONS. (See Instruction 24)

Explanation	Amount	Explanation (continued)	Amount (continued)
See Attached Schedule			$
		Total (enter as item 24, page 1)	$

Schedule G.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction for Schedule K)

Name and address of organization	Amount	Name and address of organization (continued)	Amount (continued)
American Cancer Society	85.00	Christ Child	$ 10.00
D.A.V.	25.00	Boys Town	10.00
Disabled Veterans	10.00	Volunteers of America	5.00
Community Chest	50.00	Miscellaneous	30.00
Nebr. T.B. Assn.	5.00	St. Lezer Crawley Chapter	20.00
American Red Cross	50.00	Total (enter in column 7, Schedule K)	$ 300.00

Schedule H.—COMPUTATION OF NET EARNINGS FROM SELF-EMPLOYMENT. (See Instructions for Schedule H)

1. Ordinary net income increased by casualty losses (item 26 plus item 18, page 1, but do not include any income from excluded services or sources)		$ 69,093.13
2. Less: Portion of item 4, page 1, which does not constitute net earnings from self-employment	$	
3. Dividends from item 5, page 1		
4. Interest on corporation bonds and Government obligations, etc., included in items 6, 7, and 8, page 1		
5. Net rentals from real estate (item 9, page 1, less allowable deductions)		
6. Net gain (or loss) from item 11, page 1		
7. Net earnings from self-employment. (Enter in column 10, Schedule K)		$ 69,093.13

QUESTIONS

1. Date of organization **June 18, 1946**
2. If this is the organization's first return, indicate whether (a) completely new business [ ], or (b) successor to previously existing business, which was organized as (1) corporation [ ], (2) partnership [ ], or (3) sole proprietorship [ ], or (4) other (indicate)

   If successor to previously existing business, give name and address of the previous business organization
3. Nature of organization (partnership, syndicate, pool, joint venture, etc.) **Partnership**
4. Was a return of income filed for preceding year? **Yes** If so, to which District Director's office was it sent? **Omaha**
5. Check whether this return was prepared on the cash [ ] or accrual [X] basis.
6. State whether inventories at the beginning and end of the taxable year were valued at (a) cost, or (b) cost or market whichever is lower ....

   If any other basis is used, attach statement describing basis fully, state why used and the date inventory was last reconciled with stock
7. Is any member of the partnership the wife, son, or daughter of any other member? (Answer "Yes" or "No.") **Yes**
8. Did the organization at any time during the taxable year own directly or indirectly any stock of a foreign corporation or of a personal holding company, as defined in section 501 of the Internal Revenue Code? (Answer "Yes" or "No.") **No** If answer is "Yes," attach list showing name and address of each such corporation and amount of stockholdings
9. Was return of information on Forms 1096 and 1099, or Form W-2a, filed for the calendar year 1953? (See Instruction H) **Yes**
10. Did the partnership, during the taxable year, have any contracts or subcontracts subject to the Renegotiation Act of 1951? (Answer "Yes" or "No.") **No** If answer is "Yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts $ (See General Instruction L.)

[10—59]

16—60426-1

Schedule L.—BALANCE SHEETS | Page 4

ASSETS	Beginning of taxable year Amount	Total	End of taxable year Amount	Total
1 Cash		$ 51,827.72		$ 109,740.92
2 Notes and accounts receivable	86,698.33		$ 95,177.10	
Less Reserve for bad debts		86,698.33		95,177.10
3 Inventories				
4 Investments				26,990.00
5 Depreciable assets	51,991.47		$ 73,040.84	
Less Reserve for depreciation	23,956.15	28,035.32	36,215.25	36,825.59
6 Land Deferred Expense		874.78		699.04
7 Other assets		83,822.20		78,880.34
8 Total assets		$ 251,258.35		$ 338,312.99
LIABILITIES				
9 Accounts payable		$ 4,754.10		$ 11,167.53
10 Deferred Income		235,942.33		248,790.30
11 Accrued expenses		2,834.40		4,716.30
12 Other liabilities		289.80		
13 Partners' capital accounts				
(a)			$	
(b) Mark E. Schlude	2,919.67		35,960.26	
(c)				
(d) Marzalie Schlude	4,518.05		37,678.60	
(e)		7,437.72		73,638.86
14 Total liabilities		$ 251,258.35		$ 338,312.99

Schedule J.—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS

	1. Capital account at beginning of year	2. Ordinary net income	3. Capital gains and nontaxable income	4. Additional capital contributed during year	5. Capital losses and unallowable deductions	6. Withdrawals	7. Capital account at end of year
(a)	$	$	$	$	$	$	$
(b)	2,919.67	34,546.57		21,645.79		23,151.77	35,960.26
(c)							
(d)	4,518.05	34,546.56		21,645.77		23,031.78	37,678.60
(e)							

Schedule K.—PARTNERS' SHARES OF INCOME AND CREDITS. (See Instruction for Schedule K)

	1. Name and address of each partner (Designate nonresident aliens, if any) Where return of partner or member is filed in another internal revenue district, specify district	2. Percentage of time devoted to business	3. Ordinary net income (line 28, page 1) less any partially tax exempt interest (included in line 6, page 1)	4. Partially tax exempt interest (included in line 6, page 1)
(a)			$	$
(b)	Mark E. Schlude - Omaha, Nebraska	100%	34,546.57	
(c)				
(d)	Marzalie Schlude - Omaha, Nebraska	100%	34,546.56	
(e)				
Totals			$ 69,093.13	$

Continuation of Schedule K

	5. Net short-term gain (or loss) from sale or exchange of capital assets (from line 3, Schedule A)	6. Net long-term gain (or loss) from sale or exchange of capital assets (from line 6, Schedule A)	7. Charitable contributions (from Schedule G)	8. Federal income tax paid at source (2 percent of line 7, page 1)	9. Income and profits taxes paid to a foreign country or United States possession	10. Net earnings from self-employment (from line 1, Schedule H, page 3)
(a)	$	$	$	$	$	$
(b)			150.00			34,546.57
(c)						
(d)			150.00			34,546.56
(e)						
Totals	$	$	$ 300.00	$	$	$ 69,093.13

DECLARATION (See Instruction D)

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief is a true, correct, and complete return.

[signature] 10/15/57 Marzalie Schlude 10/15/57

(Signature of person (other than partner or member) preparing return) (Date) (Signature of partner or member) (Date)

(Name of firm or employer, if any) U. S. GOVERNMENT PRINTING OFFICE 16—68836-1 (Address of partner or member)

FORM 1040
U. S. Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN

1950 CALENDAR YEAR

For other taxable years ending after Sept. 30, 1950, but before Dec. 31, 1951, attach Form 1040FY

EMPLOYEES: Instead of this form, you may use Form 1040A if your total income was less than $5,000, consisting wholly of wages shown on Forms W-2, or of such wages and not more than $100 of other wages, dividends, and interest.

Do not write in these spaces

(Cashier's Stamp)

Name: Mark E. Schlude and Marzalie Schlude
(PLEASE PRINT. If this is a joint return of husband and wife, use first names of both)

HOME ADDRESS: 309 So. 19th Street
(PLEASE PRINT. Street and number or rural route)

Omaha (City, town, or post office) (Postal zone number) Nebraska (State)

Social Security No. Occupation: Own Dance Studio

Your exemptions

1. List your own name. If married and your wife (or husband) had no income, or if this is a joint return of husband and wife, list name of your wife (or husband). List names of other close relatives (as defined in Instructions) with 1950 gross incomes of less than $500 who received more than one-half of their support from you in 1950. If this is a joint return of husband and wife, list dependent relatives of both.

Name (please print)	65 or over	Blind	On lines a and b below— Write 1 if neither 65 nor blind, Write 2 if either 65 or blind, Write 3 if both 65 and blind	
Your name: Mark	Yes ☐ No ☒	Yes ☐ No ☒	a. Number of exemptions for you	1
Wife's (or husband's) name: Marzalie	Yes ☐ No ☒	Yes ☐ No ☒	b. Number of her (his) exemptions	1
Names of Other Dependent Relatives	Relationship		Address, if different from yours	

Enter here total number of exemptions claimed (yours and your wife's plus one for each dependent listed above) → 2

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1950, BEFORE PAY-ROLL DEDUCTIONS for taxes, dues, insurance, bonds, etc. Also enter amount of income tax withheld. Members of Armed Forces and persons claiming traveling or reimbursed expenses, see Instructions.

Print Employer's Name	Where Employed (City and State)	Amount of Income Tax Withheld	Total Wages
		$	$
	Enter totals	$	$

3. If you received dividends, interest, or any other income, give details on page 2 and enter the total here — 19,948 95
4. Add income shown in items 2 and 3, and enter the total here — $ 19,948 95

How to figure the tax

IF YOUR INCOME WAS LESS THAN $5,000: Use the table on page 4 to find your tax unless you itemize your deductions. This table allows about 10 percent of your total income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.

IF INCOME WAS $5,000 OR MORE: Do not use tax table. Compute tax on page 3. Use standard deduction or itemize deductions, whichever is to your advantage.
HUSBAND AND WIFE: For split-income benefits, file a joint return. If filing separate returns, and one itemizes deductions, both must itemize.

Tax due or refund

5. Enter your tax from table on page 4, or from line 18, page 3 — $ 4,076 32
6. How much have you paid on your 1950 income tax?
   (A) By tax withheld (in item 2, above). Attach Original Forms W-2 — $
   (B) By payments on 1950 Declaration of Estimated Tax — 5,000 00
   Enter total here → 5,000 00
7. If your tax (item 5) is larger than payments (item 6), enter BALANCE OF TAX DUE here — $
   This balance of tax due must be paid in full with return.
8. If your payments (item 6) are larger than your tax (item 5), enter the OVERPAYMENT here — $ 923 68
   Enter amount of item 8 you want: Refunded to you $ ______ Credited on your 1951 estimated tax $ 923.68
   Do you owe any prior year Federal tax for which you have been billed? No (Yes or No)

If you filed a return for a prior year, state latest year: 1949
Where filed: Omaha, Nebraska
To which Collector's office did you pay amount claimed in item 6 (B, above)? Omaha, Nebraska

County in which you reside: Douglas
Is your wife (or husband) making a separate return for 1950? No (Yes or No)
If "Yes," write her (or his) name

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Signature of person (other than taxpayer) preparing return

Marzalie Schlude (Signature of taxpayer) 3/1/51 (Date)

Mark E. Schlude (Signature of wife or husband if this is a joint return) 3/1/51 (Date)

(Name of firm or employer, if any)

To assure any benefits of split income ... and BOTH MUST SIGN even though only one has income.

EXHIBIT 7-0

Exhibit 7-G to Stipulation of Facts

2)

Name and address of corporation declaring dividend	Amount	Name and address of corporation declaring dividend	Amount
Automatic Canteen Merchandise Mart Chicago, Ill.	$ 62 50		$

Enter total here → $ 62 50

Schedule B.—INCOME FROM INTEREST

Name and address of payer	Amount	Name and address of payer	Amount
	$		$

Enter total here →

Schedule C.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION. (Farmers should obtain Form 1040F)

Net profit (or loss) from business or profession (from separate Schedule C)

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. Net gain (or loss) from sale or exchange of capital assets (from separate Schedule D) 959 35
2. Net gain (or loss) from sale or exchange of property other than capital assets (from separate Schedule D)

Schedule E.—INCOME FROM ANNUITIES OR PENSIONS

1. Cost of annuity (total amount you paid in)	$	4. Total amount received this year	$
2. Amount received tax-free in prior years		5. Excess, if any, of line 4 over line 3	
3. Remainder of cost (line 1 less line 2)	$	6. Enter line 5, or 3 percent of line 1, whichever is greater (but do not enter more than line 4)	

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule H)	4. Repairs (explain in Schedule I)	5. Other expenses (Itemize in Schedule I)
	$	$	$	$
	(See schedule attached)			
1. Totals	$	$	$	$

2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5) 236 60

Schedule G.—INCOME FROM PARTNERSHIPS, ESTATES AND TRUSTS, AND OTHER SOURCES

	NAME	ADDRESS	AMOUNT
1. Partnership, joint venture, etc.	(See schedule attached)		$
2. Estate or trust			
3. Other sources (state nature)			

Enter total here → 18,690 50

Total income (or loss) from above sources (Enter as item 3, page 1) $ 19,948 95

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (If buildings, state material of which constructed)	2. Date acquired	3. Cost or other basis (do not include land or other nondepreciable property)	4. Assets fully depreciated in use at end of year	5. Depreciation allowed (or allowable) in prior years	6. Remaining cost or other basis to be recovered	7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year
		$	$	$	$			$

Schedule I.—EXPLANATION OF COLUMNS 4 AND 5 OF SCHEDULE F

1. Column No.	2. Explanation	3. Amount	1. Column No.	2. Explanation	3. Amount
		$			$

4

1 2 (2)

Schedule D (File with Form 1040)
U. S. TREASURY DEPARTMENT
Internal Revenue Service

1950

SCHEDULE OF GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

For Calendar Year 1950 or other taxable years ending after Sept. 30, 1950, but before Dec. 31, 1951

NAME AND ADDRESS Mark E. Schlude & Marzalie Schlude

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS						
			$	$	$	$
1. Totals			$	$	$	$

2. Net short-term gain or loss other than from partnerships and common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 1) $

3. Enter your share of the net short-term gain or loss from partnerships and common trust funds

4. Enter here the sum of gains or losses, or difference between gain and loss, shown in lines 2 and 3 $

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation	6. Cost or other basis	7. Expense of sale
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS						
Krenn & Dato Lots	1941	8/29/51	3000 00	$ -	$ 370 51	$ 3 00
Krenn & Dato Lots	1941	12/29/50	1500 00	-	286 89	2 20
(Taxpayer owned a 1/2 interest in these properties)						
5. Totals			$4500 00	$ -	$ 657 40	$ 5 20

6. Net long-term gain or loss other than from partnerships and common trust funds (column 4 plus column 5 minus the sum of columns 6 and 7, of line 5) 1/2 of profit reportable by taxpayer $ 1918 70

7. Enter the full amount of your share of the net long-term gain or loss from partnerships and common trust funds

8. Enter here the sum of gains or losses, or difference between gain and loss, shown in lines 6 and 7 $ 1918 70

9. Enter 50 percent of line 8. This is the amount to be taken into account in summary below $ 959 35

10. Summary of Capital Gains (use only if gains exceed losses in lines 4 and 9):

(a) Net gain for 1950 (either the sum of gains or difference between gains and losses in lines 4 and 9) $ 959 35

(b) Capital loss carry-over, 1945–1949 inclusive

(c) If line (a) exceeds line (b), enter this excess here and on line 1, Schedule D, page 2, Form 1040 $ 959 35

(d) If line (b) exceeds line (a), enter the excess here and use line (e) to determine allowable loss $

(e) Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following: (1) the amount on line (d), (2) net income (adjusted gross income if tax table is used) computed without regard to capital gains or losses, or (3) $1,000 $

(f) Enter here the amount on line (e) plus any capital loss carry-over from 1945 which was not used against line (a) or in line (e) $

(g) Subtract line (f) from line (d) and enter the remainder here. This is your capital loss carry-over to 1951 $

11. Summary of Capital Losses (use only if losses exceed gains in lines 4 and 9):

(a) Net loss for 1950 (either the sum of losses or difference between losses and gains in lines 4 and 9) $

(b) Capital loss carry-over, 1945–1949 inclusive

(c) Total of lines (a) and (b) $

(d) Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following: (1) the amount on line (c), (2) net income (adjusted gross income if tax table is used) computed without regard to capital gains or losses, or (3) $1,000 $

(e) Enter here the amount on line (d) plus the amount of any 1945 capital loss carryover not used in line (d) $

(f) Subtract line (e) from line (c) and enter the remainder here. This is your capital loss carry-over to 1951 $

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Kind of property	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale
			$	$	$	$
1. Totals			$	$	$	$

2. Total net gain or loss (column 4 plus 5 minus the sum of columns 6 and 7). Enter on line 2, Schedule D, page 2, Form 1040 $

See other side for Instructions and Computation of Alternative Tax

2

Marzalie Schlude .... ½
Bayard W. Biossat .... ¼
6756 Oglesby Ave.
Lendol D. Snow .... ¼
2542 W. 101st St.

1305 W. Chicago Ave.

Rent Income		$420.00
Expenses:		
Management	21.00	
Repairs	74.99	
Insurance	160.16	256.15
Net Income Before Depreciation		163.85
Depreciation		46.18
Net Income		117.67
½ Interest		58.84

Depreciation Schedule:

1. Store
2. 9/18/47
3. $923.72
4. ......
5. 27.58
6. 896.14
7. 20 years
8. 17¾ years
9. $ 46.18

Marzalie Schlude .... ½
Harry A. Boissat .... ½
6848 Bennet Ave.

7801 South Shore Drive

Gross Income:		$540.00
Expenses:		
Insurance	5.51	
Water	4.26	
Plumbing Repairs	29.00	38.77
Net Income (Before Depreciation)		501.23
A ½ interest		250.62
Deduct depreciation (Taxpayer's share)		404.69
Net Income		154.07

Depreciation Schedule:

1. Frame House
2. 12-31-49
3. $6,067.35
4. ....
5. ....
6. 6,067.35
7. 15 years
8. 15 years
9. $ 404.69

Income From Partnerships and Other Sources.

Arthur Murray Dance Studio 305 So. 19th St. Omaha, Nebraska.	
Mark E. Schlude	$ 9,908.22
Marzalie Schlude	9,908.22
54th & Woodlawn—University Building c/o South Central Realty Co. 216 E. 31st St., Chicago, Ill.	
Marzalie Schlude	280.31
Total Partnership Income	20,096.75
Oil Well Development Expense	1,406.25
Total	$18,690.50

[fol. 64] Marzalie Schlude—1950

Rents Received

3332 Giles	$331.82
1305 W. Chicago Ave.	58.84
7801 South Shore Drive	154.07
Total	$236.60

Marzalie Schlude—1950

3332 Giles

Rental Income:	$378.00
Expenses:	
Liability Insurance:	19.50
Net Income (Before Depreciation)	358.50
Deduct Depreciation	26.67
Net Income	331.83

Depreciation Schedule:

1. Brick House
2. August, 1941
3. $400.00
4. ....
5. $203.56
6. 196.44
7. 15 years
8. 7 years
9. $ 26.67

Information Re: Oil Income and Expense

Lease	Dev. and Dry Hole Cost	Total Deductions	Net Income
Talbot Brown Lease Spencer County, Ind....	$281.25	$281.25	$ 281.25
Judith Gregory Lease Henderson County, Ky.	281.25	281.25	281.25
McKay-Engel Lease Effingham County, Ill...	281.25	281.25	281.25
Rice Gregory Lease Henderson County, Ky.	281.25	281.25	281.25
Mary Marshall Lease Henderson County, Ky.	281.25	281.25	281.25
Net Loss			$1,406.25

Investments made through—
Joe Reznik,
Evansville, Indiana.

[fol. 66]

Marzalie Schlude 50%
Joseph Z. Willner 50%
120 S. LaSalle St.,
Chicago, Illinois.

Profit on Lots Sold in 1950.

Krenn & Dato Lots 57, 58, 59, 60, 61, 62, 176 and 177.

Sale #1—8/29/50—Lots 57, 58, 59, 60, 61 and 62

Sales Price		$3,000.00
Cost	$370.51	
Sales Expense	3.00	373.51
Profit (Long Term)		2,626.49
50% Taxable		1,313.25
Joseph Z. Willner (50%)		656.63
Marzalie Schlude (50%)		656.63

Sale #2—12/29/50—Lots 176 and 177

Sales Price		$1,500.00
Cost	$286.89	
Sales Expense	2.20	289.09
Profit (Long Term)		1,210.91
50% Taxable		605.45
Joseph Z. Willner (50%)		302.72
Marzalie Schlude (50%)		302.73

Describe deductions and state to whom paid. If more space is needed, list deductions on separate sheet of paper and attach to this return

Contributions

Allowable Contributions (not in excess of 15 percent of item 4, page 1) $

Interest

Total Interest

Taxes

Total Taxes

Losses from fire, storm, or other casualty, or theft

Total Allowable Losses (not compensated by insurance or otherwise)

Medical and dental expenses

Net Expenses (not compensated by insurance or otherwise) $

Enter 5 percent of item 4, page 1, and subtract from Net Expenses

Allowable Medical and Dental Expenses. See Instructions for limitation

Miscellaneous (See Instructions)

Total Miscellaneous Deductions

TOTAL DEDUCTIONS $

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income	$ 19,948 95
2. Enter DEDUCTIONS. If deductions are itemized above, enter the total of such deductions. If adjusted gross income (line 1, above) is $5,000 or more and deductions are not itemized, enter the standard deduction of 10 percent of line 1, above, or $1,000, whichever is the lesser, or $500 if this is the separate return of a married person	1,000 00
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income	$ 18,948 95
4. Multiply $600 by total number of exemptions claimed in item 1, page 1. Enter total here	1,200 00
5. Subtract line 4 from line 3. Enter difference here	$ 17,748 95
Lines 6, 7, and 8 should be filled in ONLY by a single person or a married person making a separate return	
6. Use the tax rates shown on page 16 of Instructions to figure your tentative tax on amount shown in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). Enter the tentative tax here	$
7. If line 6 is (a) not over $400, enter 13% of amount on line 6 (b) over $400 but not over $100,000, enter $52 plus 9% of the excess over $400 (c) over $100,000, enter $9,016 plus 7.3% of the excess over $100,000	
8. Subtract line 7 from line 6. Enter the difference here. This is your combined normal tax and surtax	$
Lines 9 to 13 should be filled in ONLY if this is a joint return of husband and wife	
9. Enter here one-half of amount on line 5, above	$ 8,874 48
10. Use the tax rates shown on page 16 of Instructions to figure your tentative tax on amount shown in line 9 (if line 3, above, includes partially tax-exempt interest, see Instructions). Enter the tentative tax here	$ 2,257 32
11. If line 10 is (a) not over $400, enter 13% of amount on line 10 (b) over $400 but not over $100,000, enter $52 plus 9% of the excess over $400 (c) over $100,000, enter $9,016 plus 7.3% of the excess over $100,000	219 16
12. Subtract line 11 from line 10. Enter the difference here	$ 2,038 16
13. Multiply amount on line 12 by 2. Enter this tax here. This is your combined normal tax and surtax	$ 4,076 32
14. If alternative tax computation is made on separate Schedule D, enter here tax from line 12 on back of Schedule D	$
If you used the standard deduction in line 2, disregard lines 15, 16, and 17, and copy on line 18 the same figure you entered on line 8, 13, or 14, whichever is applicable	
15. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116) $	
16. Enter here any income tax paid at source on tax-free covenant bond interest	
17. Add the figures on lines 15 and 16 and enter the total here	$
18. Subtract line 17 from line 8, 13, or 14, whichever is applicable. Enter difference here and in item 5, page 1. This is your tax	$

j-10

36

U. S. Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN
FOR CALENDAR YEAR 1951

1951

or taxable year beginning .... 195 ..., and ending .... 195 ...

Do not write in these spaces

Serial No. 14456

(Cashier's Stamp)

REMITTANCE
14 1952

Name **Mark E. Schlude**
(PLEASE PRINT. If this is a joint return of husband and wife, use first names of both)

HOME ADDRESS **459 Beverly Drive**
(PLEASE PRINT. Street and number or rural route)

Omaha .... **Nebraska**
(City, town, or post office) (Postal zone number) (State)

Social Security No. **489-09-3714** .... Occupation

1. List your name. If your wife (or husband) had no income, or if this is a joint return, list also her (or his) name.

Check below if at the end of your taxable year you or your wife were—

On lines A and B below—
If neither 65 nor blind write the figure 1
If either 65 or blind write the figure 2
If both, 65 and blind write the figure 3

A **Mark E. Schlude** (Your name) — 65 or over ☒ Blind ☐ — Number of exemptions for you 1

B .... (Your wife's name—do not list if exemption is claimed on another return) — 65 or over ☐ Blind ☐ — Number of her (or his) exemptions

Your exemptions

C. List names of your children (including stepchildren and *legally* adopted children) with 1951 gross incomes of less than $600 who received more than one-half of their support from you in 1951. See Instructions.

Name—and address if different from yours

Enter number of children listed ....

D. Enter number of exemptions claimed for close relatives listed in Schedule J on page 2 ....

E. Enter total number of exemptions claimed in A to D above 1

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1951, *before payroll deductions.* Persons claiming traveling or reimbursed expenses, see Instructions.

Print Employer's Name	Where Employed (City and State)	Income Tax Withheld	Total Wages
		$	$
	Enter totals	$	$

3. If you received dividends, interest, or any other income, give details on page 2 and enter the total here .... 13341 | 97

4. Add income shown in items 2 and 3, and enter the total here .... $ 13341 | 97

Please Attach All W-2 Forms Here

How to figure the tax

IF YOUR INCOME WAS LESS THAN $5,000.—Use the tax table on page 4 *unless you itemize deductions.* The table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3. **IF INCOME WAS $5,000 OR MORE.**—Compute tax on page 3. Use standard deduction or itemize deductions, whichever is to your advantage.

Tax due or refund

5. (A) Enter your tax from table on page 4, or from line 13, page 3 .... $ 3580 | 05
(B) Enter your self-employment tax from line 31, separate Schedule C .... 81 | 00
Enter total here → $ 3661 | 05

6. How much have you paid on your 1951 income tax?
(A) By tax withheld (in item 2, above). Attach Original Forms W-2 .... $
(B) By payments on 1951 Declaration of Estimated Tax (include any overpayment on your 1950 tax not claimed as a refund) .... 3000 | 00
Enter total here → 3000 | 00

7. If your tax (item 5) is larger than payments (item 6), enter *balance of tax due* here. This balance must be paid in full with return .... $ 661 | 05

8. If your payments (item 6) are larger than your tax (item 5), enter the *overpayment* here .... $
Enter amount of item 8 you want $ .... (Refunded) $ .... (Credited on 1952 estimated tax)

Do you owe any prior year Federal tax for which you have been billed? (Yes or No) **No** Is your wife (or husband) making a separate return for 1951? (Yes or No) **Yes** If "yes," write her (or his) name **Marzalie Schlude**

If you have filed a return for a prior year, state latest year **1950** Where filed? **Omaha**

To which Collector's office did you pay amount claimed in item 6 (B), above? **Omaha**

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

.... (Signature of person, other than taxpayer, preparing this return) (Date)

Mark E Schlude
(Signature of taxpayer) (Date)

(Name of firm or employer, if any)

(Signature of taxpayer's wife or husband if this is a joint return) (Date)

To assure split income benefits, husband and wife must include all their income o[illegible] BOTH MUST SIGN.

EXHIBIT 3-H

37

Schedule A.—INCOME FROM DIVIDENDS

Name of corporation declaring dividend	Amount	Name of corporation declaring dividend	Amount		
	$	Automatic Canteen Corporation	$ 250 00		
		Enter total here →		$ 250	00

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount
	$		$
		Enter total here →	

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION, FARMING, AND PARTNERSHIP

1 Business profit (or loss) from separate Schedule C, line 24	$			
2 Farm profit (or loss) from separate schedule, Form 1040F				
3 Partnership, etc., profit (or loss) from Form 1065, Schedule J, Column 10	12605	93		
4 Total of lines 1, 2, 3	$ 12605	93		
5 Less: Net operating loss deduction (attach statement)				
6 Net profit (or loss) (line 4 less line 5)			12605	93

Schedule D.—NET GAIN OR LOSS FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1 From sale or exchange of capital assets (from separate Schedule D)
2 From sale or exchange of property other than capital assets (from separate Schedule D)

Schedule E.—INCOME FROM ANNUITIES OR PENSIONS

1 Cost of annuity (amount you paid)	$	4 Amount received this year	$
2 Cost received tax-free in past years		5 Excess of line 4 over line 3	
3 Remainder of cost (line 1 less line 2)	$	6 Enter line 5, or 3 percent of line 1, whichever is greater (but not more than line 4)	

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule H)	4. Repairs (explain in Schedule I)	5. Other expenses (Explain in Schedule I)		
614-616 Woodland Park -- SEE ATTACHED SCHEDULE				$	41	14
Oil Income -- Overide Oil Deal					94	90
1 Totals	$	$	$	$		
2 Net profit (or loss) (column 2 less sum of columns 3, 4, and 5)						

Schedule G.—INCOME FROM ESTATES AND TRUSTS AND OTHER SOURCES

1 Estate or trust (Name) (Address)	$		
2 Other sources (state nature) Commission	350 00		
	Enter total here →	350	00
Total income (or loss) from above sources (Enter here and as item 3, page 1)		$ 13341	97

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SEPARATE SCHEDULE C AND SCHEDULE F

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule I.—EXPLANATION OF LINES 6, 17, AND 28, SEPARATE SCHEDULE C AND COLUMNS 4 AND 5 OF SCHEDULE F

Line or Column No.	Explanation	Amount	Line or Column No.	Explanation	Amount
		$			$

Schedule J.—EXEMPTIONS FOR CLOSE RELATIVES—(See Instructions)

1. Name of dependent relative. Also give address if different from yours	2. Relationship	3. Did dependent during 1951 (a) have gross income of $600 or more?	(b) Reside in your home?	(c) Receive entire support from you?	4. If answer to either 3(b) or 3(c) is "No," enter amount spent for dependent's support in 1951 by— You (and your wife if this is a joint return)	Others, and by dependent from own funds
					$	$

Enter here and as item 1D, page 1, the number of close relatives claimed above

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[fol. 59]

Mark E. Schlude .... ¼

Bayard W. Biossat .... ½
6756 Oglesby Ave.,
Chicago, Illinois.

Harold R. Warner .... ¼
5339 Cornell Ave.,
Chicago, Illinois.

614-616 Woodland Park
(Purchased 12/4/51)

Rent Income:		$625.03
Expenses:		
Light	($101.60)	
Interest	21.58	
Insurance	76.87	
Management	28.88	
Caretaker	12.32	
Water	(18.10)	
Gas	(23.76)	
Plumbing	7.50	
Carpenter Repairs	350.00	353.64
Net Income Before Depreciation		271.39
Depreciation		106.84
Net Income		164.55
¼ Interest		41.14

Depreciation Schedule:

1. 6 apts.—brick
2. 12/4/51
3. $25,642.25
4. ....
5. $25,642.25
6. 20 years
7. 20 years
8. $106.84 (1 Month)

SCHEDULE C (File with Form 1040)
U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

1951

SCHEDULE OF PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION AND COMPUTATION OF SELF-EMPLOYMENT TAX (for old-age and survivors insurance)

For calendar year 1951 or fiscal year beginning , 1951, and ending , 195

Name and address under which Form 1040 is filed: Mark E. Schiude -- Omaha, Nebraska

If a joint return, name of husband or wife having net earnings from self-employment

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION
(For reporting farm income, see Form 1040 Instructions)

State: (1) nature of business: Ballroom Dancing Instruction
(2) business name: Arthur Murray Dance Studio
(3) business address: 309 South 19th Street - Omaha, Nebraska

Do NOT include in this schedule cost of goods withdrawn for personal use or deductions not connected with your business or profession

1	Total receipts from business or profession		$
	COST OF GOODS SOLD		
2	Inventory at beginning of year	$	
3	Merchandise bought for manufacture or sale		
4	Cost of labor		
5	Material and supplies		
6	Other costs (explain in Schedule I, Form 1040)		
7	Total of lines 2 to 6	$	
8	Less inventory at end of year		
9	Net cost of goods sold (line 7 less line 8)		
10	Gross profit (line 1 less line 9)		$
	OTHER BUSINESS DEDUCTIONS		
11	Salaries and wages not included in line 4	$	
12	Rent on business property		
13	Interest on business indebtedness		
14	Taxes on business and business property		
15	Bad debts arising from sales or services		
16	Depreciation and obsolescence (explain in Schedule H, Form 1040)		
17	Repairs (explain in Schedule I, Form 1040)		
18	Depletion of mines, oil and gas wells, timber, etc. (submit schedule)		
19	Amortization of emergency facilities (attach statement)		
20	Other business expenses (explain in Schedule I, Form 1040)		
21	Total of lines 11 to 20		
22	Net profit (or loss) before losses of business property (line 10 less line 21)		$
23	Less: Losses of business property (attach statement)		
24	Net profit (or loss) (line 22 less line 23). Enter here and on line 1, Schedule C Summary, page 2, Form 1040		$

COMPUTATION OF SELF-EMPLOYMENT TAX (See Instructions on other side)

25	Net earnings (or loss) from self-employment included in line 22, above	$ NONE	
26	Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 10, Schedule K, page 4, Form 1065)	12605 93	
27	Total net earnings (or loss) from self-employment (lines 25 and 26) (If total of net earnings is under $400, do not make any entries below)		$ 12605 93
28	Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance		NONE
29	Total of lines 27 and 28		$ 12605 93
30	Self-employment income subject to tax: If line 29 is (a) not over $3,600, enter amount shown on line 27; (b) over $3,600—and amount on line 28 is $3,600 or more, enter "none"—and amount on line 28 is under $3,600 enter difference between $3,600 and amount on line 28		$ 3600 00
31	Self-employment tax—2¼ percent of amount shown on line 30. Enter tax here and as item 5(B), page 1, Form 1040		$ 81 00

FILL IN ITEMS BELOW BUT DO NOT DETACH

-40

ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE ON PAGE 4 OR STANDARD DEDUCTION ON LINE 2 BELOW—

If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize

Describe deductions and state to whom paid. If more space is needed, attach additional sheets.

Contributions

Allowable Contributions (not in excess of 15 percent of item 4, page 1) $

Interest

Total Interest

Taxes

Total Taxes

Losses from fire, storm, or other casualty, or theft

Total Allowable Losses (not compensated by insurance or otherwise)

Medical and dental expenses (*if over 65 see instructions*)

Net Expenses (not compensated by insurance or otherwise) $

Enter 5 percent of item 4, page 1, and subtract from Net Expenses

Allowable Medical and Dental Expenses. See Instructions for limitation

Miscellaneous (*See Instructions*)

Total Miscellaneous Deductions

Total Deductions $

TAX COMPUTATION FOR CALENDAR YEAR 1951 (For Other Taxable Years Attach Form 1040FY)

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income	$ 13341	97
2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized and line 1, above, is $5,000 or more: (*a*) married persons filing separately enter $500, (*b*) all others enter 10 percent of line 1, but not more than $1,000	500	00
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income.	$ 12841	97
4. Multiply $600 by total number of exemptions claimed in item 1E, page 1. Enter total here	600	00
5. Subtract line 4 from line 3. Enter difference here. (If line 1 includes partially tax-exempt interest, see instructions)	$ 12241	97
6. **If line 5 is not more than $2,000**—Enter 20.4 percent of amount on line 5 and disregard lines 7, 8, and 9. This is your normal tax and surtax	$	
7. **If line 5 is more than $2,000 and you are a single person or a married person filing separately**—Use tax rates on last page of instructions to figure tax on amount on line 5. This is your normal tax and surtax	$ 3580	05
8. **If line 5 is more than $2,000 and you are filing a joint return**—		
(*a*) Enter here one-half of the amount of line 5 $		
(*b*) Use tax rates on last page of instructions to figure tax on amount on line 8 (*a*)		
(*c*) Multiply amount on line 8 (*b*) by 2. This is your normal tax and surtax	$	
9. If alternative tax computation is made, enter here tax on back of separate Schedule D	$	
Disregard lines 10, 11, and 12, and copy on line 13 the same figure you entered on line 6, 7, 8 (c), or 9, unless you used itemized deductions		
10. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116) $		
11. Enter here any income tax paid at source on tax-free covenant bond interest		
12. Add the figures on lines 10 and 11 and enter the total here	$	
13. Subtract line 12 from line 6, 7, 8 (*c*), or 9. Enter difference here and as item 5 (A), page 1. This is your tax	$ 3580	05

16—

1040
U. S. Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN 1951
FOR CALENDAR YEAR 1951

or taxable year beginning ...., 195 , and ending ...., 195

Do not write in these spaces
Serial No. A7- 14443
(Cashier's Stamp)
1 1951

Name Marzalie Schlude
(PLEASE PRINT. If this is a joint return of husband and wife, use first names of both)

HOME ADDRESS 459 Beverly Drive
(PLEASE PRINT. Street and number or rural route)

Omaha Nebraska
(City, town, or post office) (Postal zone number) (State)

Social Security No. 321-09-2107 Occupation

Your exemptions

1. List your name. If your wife (or husband) had no income, or if this is a joint return, list also her (or his) name.

Check below if at the end of your taxable year you or your wife were—

On lines A and B below—
If neither 65 nor blind write the figure 1
If either 65 or blind write the figure 2
If both 65 and blind write the figure 3

A. Marzalie Schlude (Your name) — 65 or over ☐ Blind ☐ — Number of exemptions for you: 1

B. (Your wife's name—do not list if exemption is claimed on another return) — 65 or over ☐ Blind ☐ — Number of her (or his) exemptions

C. List names of your children (including stepchildren and *legally* adopted children) with 1951 gross incomes of less than $600 who received more than one-half of their support from you in 1951. See Instructions.

Name—and address if different from yours

Enter number of children listed

D. Enter number of exemptions claimed for close relatives listed in Schedule J on page 2

E. Enter total number of exemptions claimed in A to D above: 1

Please Attach All W-2 Forms Here

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1951, *before payroll deductions.* Persons claiming traveling or reimbursed expenses, see Instructions

Print Employer's Name	Where Employed (City and State)	Income Tax Withheld	Total Wages
		$	$
	Enter totals	$	$

3. If you received dividends, interest, or any other income, give details on page 2 and enter the total here: 1331.13

4. Add income shown in items 2 and 3, and enter the total here: $1331.13

How to figure the tax

IF YOUR INCOME WAS LESS THAN $5,000.—Use the tax table on page 4 *unless you itemize deductions.* The table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.
IF INCOME WAS $5,000 OR MORE.—Compute tax on page 3. Use standard deduction or itemize deductions, whichever is to your advantage.

Tax due or refund

5. (A) Enter your tax from table on page 4, or from line 13, page 3: $ [illegible] 29
(B) Enter your self-employment tax from line 31, separate Schedule C: 31 00
Enter total here → $ [illegible] 29

6. How much have you paid on your 1951 income tax?
(A) By tax withheld (in item 2, above). Attach Original Forms W-2: $
(B) By payments on 1951 Declaration of Estimated Tax (include any overpayment on your 1950 tax not claimed as a refund): 3000 00
Enter total here → 3000 00

7. If your tax (item 5) is larger than payments (item 6), enter *balance of tax due* here. This balance must be paid in full with return: $ [illegible] 29

8. If your payments (item 6) are larger than your tax (item 5), enter the *overpayment* here: $
Enter amount of item 8 you want $ .... (Refunded) $ .... (Credited on 1952 estimated tax)

Do you owe any prior year Federal tax for which you have been billed? (Yes or No) No Is your wife (or husband) making a separate return for 1951? (Yes or No) Yes If "yes," write her (or his) name [illegible] Schlude
If you have filed a return for a prior year, state latest year 1950 Where filed? Omaha
To which Collector's office did you pay amount claimed in item 6 (B), above? Omaha

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Robert H. Love 3-12-52 — Marzalie Schlude 3/13
(Signature of person, other than taxpayer, preparing this return) (Date) (Signature of taxpayer) (Date)

(Name of firm or employer, if any) (Signature of taxpayer's wife or husband if this is a joint return) (Date)

To assure split-income benefits, husband and wife must include all their income and, even thou ... SIGN. 16—64806-1

EXHIBIT 9-1

EXHIBIT 9-1 TO STIPULATION OF FACTS

42

Schedule A.—INCOME FROM DIVIDENDS

Name of corporation declaring dividend	Amount	Name of corporation declaring dividend	Amount	
	$		$	
			Enter total here →	$

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount	
	$		$	
			Enter total here →	

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule C, line 24	$			
2. Farm profit (or loss) from separate schedule, Form 1040F				
3. Partnership, etc., profit (or loss) from Form 1065, Schedule J, Column 10	10,2[illegible]	39		
4. Total of lines 1, 2, 3	$			
5. Less: Net operating loss deduction (attach statement)				
6. Net profit (or loss) (line 4 less line 5)			10,229	39

Schedule D.—NET GAIN OR LOSS FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. From sale or exchange of capital assets (from separate Schedule D)	3,[illegible]02	37
2. From sale or exchange of property other than capital assets (from separate Schedule D)		

Schedule E.—INCOME FROM ANNUITIES OR PENSIONS

1. Cost of annuity (amount you paid)	$		4. Amount received this year	$		
2. Cost received tax-free in past years			5. Excess of line 4 over line 3			
3. Remainder of cost (line 1 less line 2)	$		6. Enter line 5, or 3 percent of line 1, whichever is greater (but not more than line 4)			

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule H)	4. Repairs (explain in Schedule I)	5. Other expenses (itemize in Schedule I)		
	$	$	$	$		
1. Totals	$	$	$	$		
2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5)				Loss	(532	63)

Schedule G.—INCOME FROM ESTATES AND TRUSTS AND OTHER SOURCES

1. Estate or trust (Name) (Address)	$			
2. Other sources (state nature) Audit Fee on Above	50	00		
Enter total here →			(50	00)
Total income (or loss) from above sources (Enter here and as item 3, page 1)			$ 13,361	13

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SEPARATE SCHEDULE C AND SCHEDULE F

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule I.—EXPLANATION OF LINES 6, 17, AND 20, SEPARATE SCHEDULE C AND COLUMNS 4 AND 5 OF SCHEDULE F

Line or Column No.	Explanation	Amount	Line or Column No.	Explanation	Amount
		$			$

Schedule J.—EXEMPTIONS FOR CLOSE RELATIVES—(See Instructions)

1. Name of dependent relative. Also give address if different from yours	2. Relationship	3. Did dependent (during 1951) (a) Have gross income of $600 or more?	(b) Reside in your home?	(c) Receive entire support from you?	4. If answer to either 3(b) or 3(c) is "No" enter amount spent for dependent's support in 1951 by— You (and your wife if this is a joint return)	Others, and by dependent from own funds
					$	$

Enter here and as item 1D, page 1, the number of close relatives claimed above

SCHEDULE OF PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION AND COMPUTATION OF SELF-EMPLOYMENT TAX (for old-age and survivors insurance)

For calendar year 1951 or fiscal year beginning .... 1951, and ending 195

Name and address under which Form 1040 is filed: [illegible] Schlade - Omaha, Nebr.

If a joint return, name of husband or wife having net earnings from self-employment

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION
(For reporting farm income, see Form 1040 Instructions)

State (1) nature of business: Ballroom Dancing Instruction
(2) business name: Arthur Murray Dance Studio
(3) business address: 309 South 19th Street - Omaha, Nebraska

Do NOT include in this schedule cost of goods withdrawn for personal use or deductions not connected with your business or profession

1	Total receipts from business or profession		$
	COST OF GOODS SOLD		
2	Inventory at beginning of year	$	
3	Merchandise bought for manufacture or sale		
4	Cost of labor		
5	Material and supplies		
6	Other costs (explain in Schedule I, Form 1040)		
7	Total of lines 2 to 6	$	
8	Less inventory at end of year		
9	Net cost of goods sold (line 7 less line 8)		
10	Gross profit (line 1 less line 9)		$
	OTHER BUSINESS DEDUCTIONS		
11	Salaries and wages not included in line 4	$	
12	Rent on business property		
13	Interest on business indebtedness		
14	Taxes on business and business property		
15	Bad debts arising from sales or services		
16	Depreciation and obsolescence (explain in Schedule H, Form 1040)		
17	Repairs (explain in Schedule I, Form 1040)		
18	Depletion of mines, oil and gas wells, timber, etc. (submit schedule)		
19	Amortization of emergency facilities (attach statement)		
20	Other business expenses (explain in Schedule I, Form 1040)		
21	Total of lines 11 to 20		
22	Net profit (or loss) before losses of business property (line 10 less line 21)		$
23	Less: Losses of business property (attach statement)		
24	Net profit (or loss) (line 22 less line 23). Enter here and on line 1, Schedule C Summary, page 2, Form 1040		$

COMPUTATION OF SELF-EMPLOYMENT TAX (See Instructions on other side)

25	Net earnings (or loss) from self-employment included in line 22, above	$ None	
26	Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 10, Schedule K, page 4, Form 1065)	10,[illegible] 30	
27	Total net earnings (or loss) from self-employment (lines 25 and 26) (If total of net earnings is under $400, do not make any entries below)		$ 10,[illegible] 30
28	Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance		-0-
29	Total of lines 27 and 28		$ 10,[illegible] 30
30	Self-employment income subject to tax. If line 29 is (a) not over $3,600, enter amount shown on line 27; (b) over $3,600—and amount on line 28 is $3,600 or more, enter "none"; —and amount on line 28 is under $3,600, enter difference between $3,600 and amount on line 28		$ 3600 00
31	Self-employment tax—2¼ percent of amount shown on line 30. Enter tax here and as item 5(B), page 1, Form 1040		$ 81 00

FILL IN ITEMS BELOW BUT DO NOT DETACH

44

Marzalie Schlude. [fol.

Year 1951.

Partnership Income		
Arthur Murray Dance Studio, 309 South 19th Street, Omaha, Nebraska	$12,605.92	
54th & University—Woodlawn Buildings—Loss .... c/o South Central Realty Co., 216 E. 31st Street, Chicago, Illinois	1,616.53	$10,989.39
Income/(Loss) From Rents		
3332 Giles Avenue—Loss.......	($ 531.64)	
7801 South Shore Drive—Loss	(154.24)	
	($ 685.88)	
1305 W. Chicago Avenue—Income	105.25	($ 580.63)

3332 Giles Avenue

Rental Income:		417.00
Expenses:		
Liability Insurance	11.02	
Real Estate Taxes		
Taxes since date of acquisition	854.23	865.25
Net Loss (Before Depreciation)		(448.25)
Deduct Depreciation		83.39
Net Loss		(531.64)

Depreciation Schedule:

1. Brick House
2. 1941
3. $730.57 (Includes 1951 additional building cost of $330.57)
4. $230.23
5. 500.34
6. 15 years
7. 6 years
8. 83.39

In 1951, the real estate taxes due against this property since 1928 through 1940 were foreclosed and paid. The total cost was $550.95 of which $330.57 was applicable to the cost of the building. In addition, the taxes since the date of acquisition through 1950 were paid in full at a total cost of $854.23.

[fol. 74] Marzalie Schlude .... ½
Harry A. Biossat .... ½
6818 Bennett Ave.
Chicago, Ill.

7801 South Shore Drive

Rent Income:		540.00
Expenses:		
Insurance	35.44	
Water	3.66	39.10
Net Income Before depreciation......		500.90
A ½ interest		250.45
Depreciation—Taxpayer's share......		404.69
Net (loss)		(154.24)

Depreciation Schedule:

1. Frame House
2. 12/31/49
3. $6,067.35
4. 404.69
5. 5,662.66
6. 15 years
7. 14 years
8. 404.69

[fol. 75]

Marzalie Schlude	½
Bayard W. Biossat 6756 Oglesby Ave. Chicago, Illinois	¼
Lendol D. Snow 2542 W. 101st St. Chicago, Illinois	¼

1305 W. Chicago Avenue

Rent Income:		420.00
Expenses:		
Management	21.00	
Insurance	137.34	158.34
Net Income Before Depreciation		261.66
Depreciation		51.17
Net Income		210.49
½ Interest		105.25

Depreciation Schedule:

1. Store and flat
2. 9/18/47
3. $1,023.72 (includes $100.00 1951 capital expense)
4. 73.76
5. 949.96
6. 20 years
7. 16¾ years

3-51-17

SCHEDULE OF GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

For Calendar Year 1951

or taxable year beginning ...., 1951, and ending ...., 1952

Name and address Marzalie Schlude - [illegible] Beverly Drive - Omaha, Nebraska

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS							
1.			$	$	$	$	$

2. Enter your share of net short-term gain or loss from partnerships and common trust funds

3. Enter here the sum of short-term gains or losses or difference between short-term gains and losses shown above $

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation	6. Cost or other basis	7. Expense of sale	8. Gain or loss
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS							
4.			$	$	$	$	$
			See attached schedule.				6004 73

5. Enter the full amount of your share of net long-term gain or loss from partnerships and common trust funds

6. Enter here the sum of long-term gains or losses or difference between long-term gains and losses shown above $ 6004 73

7. Enter 50 percent of line 6. This is the amount of long-term gain or loss to be taken into account in summary below $ 3002 37

8. Summary of Capital Gains (use only if gains exceed losses in lines 3 and 7):

(a) Net gain for 1951 (either the sum of gains or difference between gains and losses in lines 3 and 7) $ 3002 37

(b) Capital loss carry-over, 1946-1950, inclusive

(c) If line (a) exceeds line (b), enter the excess here and on line 1, Schedule D, page 2, Form 1040 $ 3002 37

(d) If line (b) exceeds line (a), enter the excess here and use line (e) to determine allowable loss $

(e) Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following: (1) the amount on line (d), (2) net income (adjusted gross income if tax table is used) computed without regard to capital gains or losses, or (3) $1,000 $

(f) Enter here the amount on line (e) plus any capital loss carry-over from 1946 which was not used against line (a) or in line (e) $

(g) Subtract line (f) from line (d) and enter the remainder here. This is your capital loss carry-over to 1952 $

9. Summary of Capital Losses (use only if losses exceed gains in lines 3 and 7):

(a) Net loss for 1951 (either the sum of losses or difference between losses and gains in lines 3 and 7) $

(b) Capital loss carry-over, 1946-1950, inclusive

(c) Total of lines (a) and (b) $

(d) Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following: (1) the amount on line (c), (2) net income (adjusted gross income if tax table is used) computed without regard to capital gains or losses, or (3) $1,000 $

(e) Enter here the amount on line (d) plus the amount of any 1946 capital loss carry-over not used in line (d) $

(f) Subtract line (e) from line (c) and enter the remainder here. This is your capital loss carry-over to 1952 $

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Kind of property	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)
1.			$	$	$	$	$

2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter on line 2, Schedule D, page 2, Form 1040 $

See other side for Instructions and Computation of Alternative Tax

16—46384-1

Schedule of Capital Gains.

Marzalie Schlade.

[fol. 77]

Year 1951.

One-Fourth Interest in 54th & University—Woodlawn Buildings		
Sale of one-fourth interest—May 1951	$28,480.00	
Less Cost Basis—originally acquired April 30, 1949	23,569.49	
		$4,910.51
Kreen and Dato Lots		
Lots 228, 235, 306, 307, 364 and 366		
Sale #1		
Sale Price—June 1951	$ 2,400.00	
Cost—1941	482.21	
	$ 1,917.79	
Less one-half to Joseph Z. Willner 120 So. LaSalle St. Chicago, Illinois	958.90	958.90
Sale #2		
Sales Price—December 1951	$ 350.00	
Cost—1941	79.36	
	$ 270.64	
Less one-half to Joseph Z. Willner 120 So. LaSalle St. Chicago, Illinois	$ 135.32	135.32
Total Long-Term Capital Gain		$6,004.73

[illegible] Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize

Describe deductions and state to whom paid. If more space is needed, attach additional sheets.

2

Contributions

Allowable Contributions (not in excess of 15 percent of item 4, page 1) $

Interest

Total Interest

Taxes

Total Taxes

Losses from fire, storm, or other casualty, or theft

Total Allowable Losses (not compensated by insurance or otherwise)

Medical and dental expenses (*if over 65 see instructions*)

Net Expenses (not compensated by insurance or otherwise) $

Enter 5 percent of item 4, page 1, and subtract from Net Expenses

Allowable Medical and Dental Expenses. See Instructions for limitation

Miscellaneous (*See Instructions*)

Total Miscellaneous Deductions

Total Deductions $

TAX COMPUTATION FOR CALENDAR YEAR 1961 (For Other Taxable Years Attach Form 1040FY)

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income	$ 13,361	13
2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized *and line 1, above, is $5,000 or more:* (*a*) married persons filing separately enter $500, (*b*) all others enter 10 percent of line 1, but not more than $1,000	500	00
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income	$ 12,861	13
4. Multiply $600 by total number of exemptions claimed in item 1E, page 1. Enter total here	600	00
5. Subtract line 4 from line 3. Enter difference here. (If line 1 includes partially tax-exempt interest, see instructions)	$ 12,261	13
6. **If line 5 is not more than $2,000**—Enter 20.4 percent of amount on line 5 and disregard lines 7, 8, and 9. This is your normal tax and surtax	$	
7. **If line 5 is more than $2,000 and you are a single person or a married person filing separately**—Use tax rates on last page of instructions to figure tax on amount on line 5. This is your normal tax and surtax	$ 3,583	29
8. **If line 5 is more than $2,000 and you are filing a joint return**— (*a*) Enter here one-half of the amount of line 5 $; (*b*) Use tax rates on last page of instructions to figure tax on amount on line 8 (*a*); (*c*) Multiply amount on line 8 (*b*) by 2. This is your normal tax and surtax	$	
9. If alternative tax computation is made, enter here tax on back of separate Schedule D	$	

Disregard lines 10, 11, and 12, and copy on line 13 the same figure you entered on line 6, 7, 8 (c), or 9, unless you used itemized deductions

10. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116) $		
11. Enter here any income tax paid at source on tax-free covenant bond interest		
12. Add the figures on lines 10 and 11 and enter the total here	$	
13. Subtract line 12 from line 6, 7, 8 (*c*), or 9. Enter difference here and as item 5 (A), page 1. This is your tax	$ 3,583	29

U. S. INDIVIDUAL INCOME TAX RETURN FOR CALENDAR YEAR 1952 — 1952

Internal Revenue Service

or taxable year beginning .... 1952, and ending 195

Name Mark E. Schlude
(PLEASE PRINT. If this is a joint return of husband and wife, use first names of both)

HOME ADDRESS 459 Beverly Drive
(PLEASE PRINT. Street and number or rural route)

Omaha 2 Nebraska
(City, town, or post office) (Postal zone number) (State)

Social Security No. 489-09-3714 Occupation

Do not write in these spaces

703637

(Cashier's Stamp)

MAR 16 1953

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Your exemptions

1. List your name. If your wife (or husband) had no income, or if this is a joint return, list also her (or his) name.

A. Mark E. Schlude

B. ....

(Your wife's name—do not list if exemption is claimed on another return)

Check below if at the end of your taxable year you or your wife were—

65 or over ☐ Blind ☐

65 or over ☐ Blind ☐

On lines A and B below—
If neither 65 nor blind write the figure 1
If either 65 or blind write the figure 2
If both 65 and blind write the figure 3

Number of exemptions for you 1

Number of her (or his) exemptions

Name—and address if different from yours

C. List names of your children (including stepchildren and *legally* adopted children) with 1952 gross incomes of less than $600 who received more than one-half of their support from you in 1952. See Instructions.

Enter number of children listed

D. Enter number of exemptions claimed for close relatives listed in Schedule I on page 2

E. Enter total number of exemptions claimed in A to D above 1

Your income

— Please Attach All Original W-2 Forms Here —

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1952, *before payroll deductions*. Persons claiming traveling or reimbursed expenses, see Instructions.

Print Employer's Name	Where Employed (City and State)	Total Wages	Income Tax Withheld
		$	$
Enter total →		$	$

3. If you received dividends, interest, or any other income, give details on page 2 and enter the total here 20657.59

4. Add income shown in items 2 and 3, and enter the total here $ 20657.59

How to figure the tax

(Before figuring your tax, see Schedule J for "Head of Household." If you claim such status, check here ☐)

IF YOUR INCOME WAS LESS THAN $5,000.—Use the tax table on page 4 *unless you itemize deductions*. The table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.

IF YOUR INCOME WAS $5,000 OR MORE.—Compute tax on page 3. Use standard deduction or itemize deductions, whichever is to your advantage.

Tax due or refund

5. (A) Enter your tax from table on page 4, or from line 13, page 3 $ 7881.98

(B) Enter your self-employment tax from line 35, separate Schedule C 81.00

Enter total here → $ 7962.98

6. How much have you paid on your 1952 income tax?

(A) By tax withheld (in item 2, above). Attach Original Forms W-2 $

(B) By payments on 1952 Declaration of Estimated Tax (include any overpayment on your 1951 tax not claimed as a refund) 7500.00

Enter total here → 7500.00

7. If your tax (item 5) is larger than payments (item 6), enter *balance of tax due* here. This balance must be paid in full with return $ 462.98

8. If your payments (item 6) are larger than your tax (item 5), enter the *overpayment* here $

Enter amount of item 8 you want $ .... (Refunded) $ .... (Credited on 1953 estimated tax)

Do you owe any prior year Federal tax for which you have been billed? (Yes or No) No Is your wife (or husband) making a separate return for 1952? (Yes or No) Yes If "yes," write her (or his) name Marzalie Schlude

If you have filed a return for a prior year, state latest year 1951 Where filed? Omaha

To which director's (formerly collector's) office did you pay amount claimed in item 6 (B), above? Omaha

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Robert Evans C.P.A. 3-14-53 — Mark E. Schlude March 14/53

(Signature of person, other than taxpayer, preparing this return) (Date) (Signature of taxpayer) (Date)

(Name of firm or employer, if any) (Signature of taxpayer's wife or husband if this is a joint return) (Date)

▶ To assure split-income benefits, husband and wife must include all their income and, even though only

EXHIBIT 10-J

[Vol. 79] EXHIBIT 10-J TO STIPULATION OF FACTS

Automatic Canteen Corporation	$ 137.50	
Truax - Trader	180.00	
	Enter total here →	$ [illegible]

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount
	$		$
		Enter total here →	

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule C, line 23	$	
2. Farm profit (or loss) from separate schedule, Form 1040F		
3. Partnership, etc., profit (or loss) from Form 1065, Schedule K, Column 3	18792.16	
Arthur Murray Dance Studio, 309 So. 19th St. Omaha, Nebraska (Partnership name)		
4. Total of lines 1, 2, 3	$ 18792.16	
5. Less: Net operating loss deduction (attach statement)		
6. Net profit (or loss) (line 4 less line 5)		18792.16

Schedule D.—NET GAIN OR LOSS FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. From sale or exchange of capital assets (from separate Schedule D)	357.67
2. From sale or exchange of property other than capital assets (from separate Schedule D)	

Schedule E.—INCOME FROM ANNUITIES OR PENSIONS

1. Cost of annuity (amount you paid)	$	4. Amount received this year	$
2. Cost received tax-free in past years		5. Excess of line 4 over line 3	
3. Remainder of cost (line 1 less line 2)	$	6. Enter line 5, or 3 percent of line 1, whichever is greater (but not more than line 4)	

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule H)	4. Repairs (attach statement)	5. Other expenses (attach statement)	
614-616 Woodland Park - See Attached Schedule				$	610.03
Oil Income - Overide Oil Deal					26.16
1. Totals	$	$	$	$	
2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5)					

Schedule G.—INCOME FROM ESTATES AND TRUSTS AND OTHER SOURCES

1. Estate or trust	
2. Other sources (state nature) (Name) Commissions (Address)	524.07
Total income (or loss) from above sources (Enter here and as item 3, page 1)	$ 20657.59

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule I.—EXEMPTIONS FOR CLOSE RELATIVES—(See Instructions)

1. Name of dependent relative. Also give address if different from yours	2. Relationship	3. Did dependent during 1952 — (a) Have gross income of $600 or more?	(b) Reside in your home?	(c) Receive entire support from you?	4. If answer to either 3(b) or 3(c) is "No" enter amount spent for dependent's support in 1952 by — You (and your wife if this is a joint return)	Others, and by dependent from own funds
					$	$

Enter here and as item 1D, page 1, the number of close relatives claimed above

Schedule J.—HEAD OF HOUSEHOLD (See Instructions)
(Not applicable where wife or husband died during taxable year)

1. Were you unmarried (or legally separated) at the close of your taxable year? (Yes or No)
2. Did any person for whom you are entitled to an exemption, or your unmarried child, grandchild or stepchild, even though not a dependent, share during your entire taxable year your home which was your principal residence? (Yes or No)
   List name(s) and relationship to you
3. Did you furnish more than one half of the cost of maintaining the household during the taxable year? (Yes or No)
   If you did not furnish the entire cost, state total amount furnished by you $ ...., by all others (including those sharing your home) $ ....
4. If all of the above questions are answered "Yes," you may determine your tax as Head of a Household.

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION 1952

(For Computation of Self-Employment Tax, see Page 3)

For Calendar Year 1952 or taxable year beginning ...., 1952, and ending ...., 195..

Name and Address (from Form 1040) Mark E. Schlude, 459 Beverly Drive, Omaha, Nebraska

(Partnerships and joint ventures should file on Form 1065)

(I) Principal business activity (see instructions) Ballroom Dance Instruction
(Retail trade, wholesale trade, lawyer, etc.) (Principal product or service)

(II) Business name Arthur Murray Dance Studio

(III) FICA employer identification number, if any (see instructions) 47-0354832

(IV) Business address (see instructions) 309 So. 19th St., Omaha Douglas Nebraska
(Street and number or rural route) (City, town, post office) (County) (State)

(V) Were you the sole proprietor of this business in 1951? Yes ☐, No ☐. If "No," check whether this business in 1952 became a successor to a corporation ☐, a partnership ☐, another sole proprietorship ☐, or started as an entirely new business ☐. Where applicable, give name of such predecessor ....

Do NOT include cost of goods withdrawn for personal use or deductions not connected with your business or profession

1. Total receipts from business or profession			$
COST OF GOODS SOLD			
2. Inventory at beginning of year	$		
3. Merchandise bought for manufacture or sale			
4. Cost of labor			
5. Material and supplies			
6. Other costs (explain in Schedule C-2)			
7. Total of lines 2 to 6	$		
8. Less inventory at end of year			
9. Net cost of goods sold (line 7 less line 8)			
10. Gross profit (line 1 less line 9)			$
OTHER BUSINESS DEDUCTIONS			
11. Salaries and wages not included in line 4	$		
12. Rent on business property			
13. Interest on business indebtedness			
14. Taxes on business and business property			
15. Losses of business property (attach statement)			
16. Bad debts arising from sales or services			
17. Depreciation and obsolescence (explain in Schedule C-1)			
18. Repairs (explain in Schedule C-2)			
19. Depletion of mines, oil and gas wells, timber, etc. (submit schedule)			
20. Amortization of emergency facilities (attach statement)			
21. Other business expenses (explain in Schedule C-2)			
22. Total of lines 11 to 21			
23. Enter net profit (or loss) (line 10 less line 22). Also enter on line 24, page 3, and on line 1, Schedule C Summary, Form 1040			$

Schedule C-1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 17

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule C-2. EXPLANATION OF LINES 6, 18, AND 21

Line or Column No.	Explanation	Amount	Line or Column No.	Explanation	Amount
		$			$

2

Name of self-employed person Mark E. Schlude

State nature of business, if any, subject to self-employment tax Ballroom Dance Instruction

24. Net profit (or loss) shown on line 23, page 1	$			
25. Losses of business property shown on line 15, page 1				
26. Total of lines 24 and 25			$	
27. Less: Net income (or loss) from excluded services or sources included in line 26 Specify excluded services or sources				
28. Net earnings from self-employment (line 26 less line 27)			$	
29. Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 10, Schedule K, Form 1065)			18792.	16
30. Total net earnings (or loss) from self-employment (line 28 plus line 29) (If total of net earnings is under $400, do not make any entries below)			$ 18792.	16
31. Maximum amount subject to self-employment tax	$ 3,600	00		
32. Less: Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance. (If such wages exceed $3,600, enter $3,600)	None			
33. Maximum amount subject to self-employment tax after adjustment for wages	$ 3600.	00		
34. Self-employment income subject to tax—Line 30 or 33, whichever is smaller			$ 3600.	00
35. Self-employment tax—2¼ percent of amount on line 34. Enter here and as item 5 (B), page 1, Form 1040			$ 81.	00

FILL IN ITEMS BELOW BUT DO NOT DETACH

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GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY **1952**

For Calendar Year 1952 or taxable year beginning ..., 1952, and ending ..., 195

Name and address Mark E. Schlude, 452 Beverly Drive, Omaha, Nebraska

(1) CAPITAL ASSETS

1. Kind of property	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (If not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS							
1			$	$	$	$	$

2. Enter your share of net short-term gain or loss from partnerships and common trust funds (2.03)
3. Enter unused capital loss carry-over from 5 preceding taxable years (attach statement)
4. Enter sum of short-term gains or losses or difference between short-term gains and losses shown above ($ 2.03)

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation	6. Cost or other basis	7. Expense of sale	8. Gain or loss
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS							
5 500 shares Automobile canteen	9-27-50	8-52	6376.22		$ 6921.68	$	$ 545.46

6. Enter the full amount of your share of net long-term gain or loss from partnerships and common trust funds 171.90
7. Enter sum of long-term gains or losses or difference between long-term gains and losses shown above $ 717.36

	Gain or loss to be taken into account (a) Gain	(b) Loss
8. Enter net short-term gain or loss from line 4	$	$ 2.03
9. Enter net long-term gain or loss from line 7	$ 717.36	$
Use lines 10 through 13 only if gains exceed losses in lines 8 and 9.		
10. Enter short-term gain (line 8, col. a) reduced by any long-term loss (line 9, col. b)	$	x x x x x
11. Enter long-term gain (line 9, col. a) reduced by any short-term loss (line 8, col. b)	$ 715.33	x x x x x
12. Enter 50 percent of line 11	$ 357.67	x x x x x
13. Enter here and on line 1, Schedule D, page 2, Form 1040, the sum of lines 10 and 12	$ 357.67	x x x x x
Use lines 14 and 15 only if losses exceed gains in lines 8 and 9.		
14. Enter the excess of losses over gains on lines 8 and 9	x x x x x	$
15. Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following: (a) the amount on line 14, (b) net income computed without regard to capital gains and losses, or (c) $1,000	x x x x x	$

COMPUTATION OF ALTERNATIVE TAX

Use only if you had a net long-term capital gain or an excess of net long-term capital gain over net short-term capital loss, and line 5 or 8(a), page 3, Form 1040, exceeds $14,000

16. Enter from page 3, Form 1040, the income from line 5 if separate return or line 8(a) if joint return	$ 19645.79
17. Enter amount from line 12, col. a, if separate return or half of such amount if joint return	357.67
18. Balance (line 16 less line 17)	$ 19288.12
19. Enter tax on amount on line 18 (use appropriate Tax Rate Schedule in Form 1040 Instructions)	$ 7695.99
20. If joint return, multiply amount on line 19 by two	$
21. Enter 52 percent of amount on line 17	$ 185.99
22. If joint return, multiply amount on line 21 by two	$
23. Alternative tax (line 19 plus line 21 if separate return, line 20 plus line 22 if joint return)	$ 7881.98
24. Enter tax from page 3, Form 1040 (either line 7, or line 8(c), whichever is applicable)	$ 7907.02
25. Tax liability (line 23 or 24, whichever is smaller) Enter here and also on line 9, page 3, Form 1040	$ 7881.98

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Kind of property	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (If not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)
1			$	$	$	$	$

2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter on line 2, Schedule D, page 2, Form 1040 $

614-616 Woodland Park (Purchased 12-4-51).

[fol. 80]

Mark E. Schlude.

Year 1952.

Rent Income		$10,800.88
Expenses		
Management	$ 529.63	
Lights	720.20	
Gas	213.94	
Water	159.30	
Interest	457.72	
Insurance	353.66	
Janitor	679.58	
Plumbing & boiler	412.52	
Carpenter	406.60	
Roof & Brick repair	376.00	
Social Security	3.90	
Real estate taxes	330.12	
Electric repair	109.50	
Equipment	511.57	
Plastering & Decorating	169.50	
Coal	942.20	
Supplies	121.86	
Exterminator	36.00	
Ashes	167.00	
Legal & trust fees	296.50	
Depreciation	1,363.44	8,360.74
Net Income		$ 2,440.14

ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE ON PAGE 4 OR STANDARD DEDUCTION ON LINE 2 BELOW—
If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize
Describe deductions and state to whom paid. If more space is needed, attach additional sheets.

Contributions	Partnership	$ 89.00	
	Allowable Contributions (not in excess of 20 percent of item 4, page 1)		$ 89.00
Interest	Mortgage on Home	$ 301.48	
	Total Interest		301.48
Taxes	Personal Property tax	$ 21.32	
	Total Taxes		21.32
Losses from fire, storm, or other casualty, or theft		$	
	Total Allowable Losses (not compensated by insurance, or otherwise)		
Medical and dental expenses (*if over 65 see Instructions*)		$	
	Net Expenses (not compensated by insurance or otherwise)	$	
	Enter 5 percent of item 4, page 1, and subtract from Net Expenses		
	Allowable Medical and Dental Expenses See Instructions for limitation		
Miscellaneous (*See Instructions*)		$	
	Total Miscellaneous Deductions		
	Total Deductions		$ 411.80

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income		$ 20657.59
2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized *and line 1, above, is $5,000 or more*: (*a*) married persons filing separately enter $500; (*b*) all others enter 10 percent of line 1, but not more than $1,000		411.80
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income		$ 20245.79
4. Multiply $600 by total number of exemptions claimed in item 1E, page 1. Enter total here		600.00
5. Subtract line 4 from line 3. Enter difference here. (If line 1 includes partially tax-exempt interest, see Instructions)		$ 18645.79
If line 5 is not more than $2,000 ——		
6. Enter 22.2 percent of amount shown on line 5 and disregard lines 7, 8, and 9		$
If line 5 is more than $2,000 ——		
7. **And you are a single person, a married person filing separately, or a head of household ——** Single persons and married persons filing separately use Tax Rate Schedule I on page 12 of Instructions to figure tax on amount on line 5; heads of household use Tax Rate Schedule II		$ 7907.02
8. **And you are filing a joint return ——**		
(*a*) Enter one-half of amount on line 5	$	
(*b*) Use Tax Rate Schedule I on page 12 of Instructions to figure tax on amount on line 8 (*a*)		
(*c*) Multiply amount on line 8 (*b*) by 2		$
9. If alternative tax computation is made, enter here tax from separate Schedule D		$ 7881.98
Disregard lines 10, 11, and 12, and copy on line 13 the same figure you entered on line 6, 7, 8 (*c*), or 9, unless you used itemized deductions		
10. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116)	$	
11. Enter here any income tax paid at source on tax-free covenant bond interest		
12. Add the figures on lines 10 and 11 and enter the total here		$
13. Subtract line 12 from line 6, 7, 8 (*c*), or 9. Enter difference here and as item 5 (A), page 1		$ 7881.98

FORM 1040
U. S. Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN
FOR CALENDAR YEAR 1952

1952

or taxable year beginning ...., 1952, and ending ...., 195..

Do not write in these spaces

Serial No. AF 703636

(Cashier's Stamp)

RECEIVED WITH REMITTANCE
MAR 16 195

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Name Marzalla Schlude
(PLEASE PRINT. If this is a joint return of husband and wife, use first names of both)

HOME ADDRESS 458 Beverly Drive
(PLEASE PRINT. Street and number or rural route)

Omaha .... Nebraska
(City, town, or post office) (Postal zone number) (State)

Social Security No. 321-09-2167 Occupation

Your exemptions

1. List your name. If your wife (or husband) had no income, or if this is a joint return, list also her (or his) name.

Check below if at the end of your taxable year you or your wife were—

On lines A and B below—
If neither 65 nor blind write the figure 1
If either 65 or blind write the figure 2
If both 65 and blind write the figure 3

A Marzalla Schlude — 65 or over ☐ Blind ☐ — Number of exemptions for you: 1

B .... — 65 or over ☐ Blind ☐ — Number of her (or his) exemptions

(Your wife's name—do not list if exemption is claimed on another return) Name—and address if different from yours

C. List names of your children (including stepchildren and *legally* adopted children) with 1952 gross incomes of less than $600 who received more than one-half of their support from you in 1952. See Instructions.

Enter number of children listed

D. Enter number of exemptions claimed for close relatives listed in Schedule I on page 2

E. Enter total number of exemptions claimed in A to D above: 1

— Please Attach All Original W-2 Forms Here —

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1952, *before payroll deductions.* Persons claiming traveling or reimbursed expenses, see Instructions.

Print Employer's Name	Where Employed (City and State)	Total Wages	Income Tax Withheld
		$	$
Enter totals →			

3. If you received dividends, interest, or any other income, give details on page 2 and enter the total here: $ 24258.09

4. Add income shown in items 2 and 3, and enter the total here: $ 24258.09

How to figure the tax

(Before figuring your tax, see Schedule J for "Head of Household." If you claim such status, check here ☐.)

IF YOUR INCOME WAS LESS THAN $5,000—Use the tax table on page 4 *unless you itemize deductions.* The table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.
IF YOUR INCOME WAS $5,000 OR MORE.—Compute tax on page 3. Use standard deduction or itemize deductions, whichever is to your advantage.

Tax due or refund

5. (A) Enter your tax from table on page 4, or from line 13, page 3: $ 7907.94
(B) Enter your self-employment tax from line 35, separate Schedule C: 81.00
Enter total here → $ 7988.94

6. How much have you paid on your 1952 income tax?
(A) By tax withheld (in item 2, above). Attach Original Forms W-2: $
(B) By payments on 1952 Declaration of Estimated Tax (include any overpayment on your 1951 tax not claimed as a refund): 7500.00
Enter total here → 7500.00

7. If your tax (item 5) is larger than payments (item 6), enter *balance of tax due* here. This balance must be paid in full with return: $ 488.94

8. If your payments (item 6) are larger than your tax (item 5), enter the *overpayment* here: $

Enter amount of item 8 you want $........ (Refunded) $........ (Credited on 1953 estimated tax)

Do you owe any prior year Federal tax for which you have been billed? (Yes or No) No Is your wife (or husband) making a separate return for 1952? (Yes or No) Yes If "yes," write her (or his) name Mark ... Schlude AF 703637
If you have filed a return for a prior year, state latest year 1951 Where filed? Omaha
To which director's (formerly collector's) office did you pay amount claimed in item 6 (B), above? Omaha

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Robert ... CPA 3-14-53 — Marzalla Schlude 3-14-53
(Signature of person, other than taxpayer, preparing this return) (Date) (Signature of taxpayer) (Date)

(Name of firm or employer, if any) (Signature of taxpayer's wife or husband ...) (Date)

To assure split-income benefits, husband and wife must include all their income and, even though ... SIGN ...

EXHIBIT 11-K

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STIPULATIONS OF FACTS

Schedule A.—INCOME FROM DIVIDENDS

Page 2

Name of corporation declaring dividend	Amount	Name of corporation declaring dividend	Amount	
	$		$	
			Enter total here →	$

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount	
	$		$	
			Enter total here →	

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule C, line 23	$	
2. Farm profit (or loss) from separate schedule Form 1040F		
3. Partnership, etc., profit (or loss) from Form 1065, Schedule K, Column 3 (Partnership name) (Address)	18792.17	
4. Total of lines 1, 2, 3	$ 18792.17	
5. Less: Net operating loss deduction (attach statement)		
6. Net profit (or loss) (line 4 less line 5)		18792.17

Schedule D.—NET GAIN OR LOSS FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. From sale or exchange of capital assets (from separate Schedule D)	3594.10
2. From sale or exchange of property other than capital assets (from separate Schedule D)	

Schedule E.—INCOME FROM ANNUITIES OR PENSIONS

1. Cost of annuity (amount you paid)	$	4. Amount received this year	$
2. Cost received tax-free in past years		5. Excess of line 4 over line 3	
3. Remainder of cost (line 1 less line 2)	$	6. Enter line 5, or 3 percent of line 1, whichever is greater (but not more than line 4)	

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule H)	4. Repairs (attach statement)	5. Other expenses (attach statement)	
3332 Gile Ave. - See Attached Schedule			$	$	192.84
7201 South Shore Drive - See Attached Schedule					(282.77)
1305 E. Chicago Ave. - See Attached Schedule					(175.44)
Harry A. Biossat - Deceased					(22.62)
1. Totals	$	$	$	$	
2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5)					

Schedule G.—INCOME FROM ESTATES AND TRUSTS AND OTHER SOURCES

1. Estate or trust Harry A. Biossat deceased Chicago, Ill. (Name) Mayer Goldberg - Administrator	2128.81
2. Other sources (state nature)	
Total income (or loss) from above sources (Enter here and as item 3, page 1)	$ 24258.09

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule I.—EXEMPTIONS FOR CLOSE RELATIVES—(See Instructions)

1. Name of dependent relative. Also give address if different from yours	2. Relationship	3. Did dependent during 1952— (a) Have gross income of $600 or more?	(b) Reside in your home?	(c) Receive entire support from you?	4. If answer to either 3(b) or 3(c) is "No" enter amount spent for dependent's support in 1952 by— You (and your wife if this is a joint return)	Others, and by dependent from own funds
					$	$

Enter here and as item 1D, page 1, the number of close relatives claimed above

Schedule J.—HEAD OF HOUSEHOLD (See Instructions)
(Not applicable where wife or husband died during taxable year)

1. Were you unmarried (or legally separated) at the close of your taxable year? (Yes or No) ....
2. Did any person for whom you are entitled to an exemption, or your unmarried child, grandchild, or stepchild, even though not a dependent, share during your entire taxable year your home which was your principal residence? (Yes or No) ....
List name(s) and relationship to you ....
3. Did you furnish more than one half of the cost of maintaining the household during the taxable year? (Yes or No) ....
If you did not furnish the entire cost, state total amount furnished by you $.................., by all others (including those sharing your home) $..................
4. If all of the above questions are answered "Yes," you may determine your tax as Head of a Household.

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SCHEDULE C (Form 1040)
U. S. Treasury Department
Internal Revenue Service

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION 1952

(For Computation of Self-Employment Tax, see Page 2)

For Calendar Year 1952 or taxable year beginning ...., 1952, and ending ...., 195..

Name and Address (from Form 1040) Marzella Schlude, 459 Beverly Drive, Omaha, Nebraska

(Partnerships and joint ventures should file on Form 1065)

(I) Principal business activity (see instructions) Ballroom Dancing Instruction
(Retail trade, wholesale trade, lawyer, etc.) (Principal product or service)

(II) Business name Arthur Murray Dance Studio

(III) FICA employer identification number, if any (see instructions) 47-0354832

(IV) Business address (see instructions) 30? So. 19th St. Omaha Douglas Nebraska
(Street and number or rural route) (City, town, post office) (County) (State)

(V) Were you the sole proprietor of this business in 1951? Yes ☐ No ☐. If "No," check whether this business in 1952 became a successor to a corporation ☐, a partnership ☐, another sole proprietorship ☐, or started as an entirely new business ☐. Where applicable, give name of such predecessor ....

Do NOT include cost of goods withdrawn for personal use or deductions not connected with your business or profession

1. Total receipts from business or profession			$
COST OF GOODS SOLD			
2. Inventory at beginning of year	$		
3. Merchandise bought for manufacture or sale			
4. Cost of labor			
5. Material and supplies			
6. Other costs (explain in Schedule C-2)			
7. Total of lines 2 to 6	$		
8. Less inventory at end of year			
9. Net cost of goods sold (line 7 less line 8)			
10. Gross profit (line 1 less line 9)			$
OTHER BUSINESS DEDUCTIONS			
11. Salaries and wages not included in line 4	$		
12. Rent on business property			
13. Interest on business indebtedness			
14. Taxes on business and business property			
15. Losses of business property (attach statement)			
16. Bad debts arising from sales or services			
17. Depreciation and obsolescence (explain in Schedule C-1)			
18. Repairs (explain in Schedule C-2)			
19. Depletion of mines, oil and gas wells, timber, etc. (submit schedule)			
20. Amortization of emergency facilities (attach statement)			
21. Other business expenses (explain in Schedule C-2)			
22. Total of lines 11 to 21			
23. Enter net profit (or loss) (line 10 less line 22). Also enter on line 24, page 3, and on line 1, Schedule C Summary, Form 1040			$

Schedule C-1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 17

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule C-2. EXPLANATION OF LINES 6, 18, AND 21

Line or Column No.	Explanation	Amount	Line or Column No.	Explanation	Amount
		$			$

COMPUTATION OF SELF-EMPLOYMENT TAX
(For old-age and survivors insurance)

Name of self-employed person Marcelle Schlude

State nature of business, if any, subject to self-employment tax Ballroom Dance Instruction

24. Net profit (or loss) shown on line 23, page 1	$	
25. Losses of business property shown on line 15, page 1		
26. Total of lines 24 and 25		$
27. Less: Net income (or loss) from excluded services or sources included in line 26. Specify excluded services or sources		
28. Net earnings from self-employment (line 26 less line 27)		$
29. Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 10, Schedule K, Form 1065)		18792.17
30. Total net earnings (or loss) from self-employment (line 28 plus line 29) (If total of net earnings is under $400, do not make any entries below)		$ 18792.17
31. Maximum amount subject to self-employment tax	$ 3,600.00	
32. Less: Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance. (If such wages exceed $3,600, enter $3,600)	None	
33. Maximum amount subject to self-employment tax after adjustment for wages	$ 3600.00	
34. Self-employment income subject to tax—Line 30 or 33, whichever is smaller		$ 3600.00
35. Self-employment tax—2¼ percent of amount on line 34. Enter here and as item 5 (B), page 1, Form 1040		$ 81.00

FILL IN ITEMS BELOW BUT DO NOT DETACH

n-4

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY — 1952

For Calendar Year 1952 or taxable year beginning .... 1952, and ending 195

Name and address Marzalie Schlude, 459 Beverly Drive, Omaha, Nebraska

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS							
1			$	$	$	$	$

2. Enter your share of net short-term gain or loss from partnerships and common trust funds (2.03)
3. Enter unused capital loss carry-over from 5 preceding taxable years (attach statement)
4. Enter sum of short-term gains or losses or difference between short-term gains and losses shown above ($ 2.03)

1. Kind of property	2. Date acquired	3. Date sold	4. Gross sales price	5. Depreciation	6. Cost or other basis	7. Expense of sale	8. Gain or loss
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS							
5 Kreen & Dato Property	1941	5-52	$ 9125.00	$	$ 2106.66	$	$ 7018.34

6. Enter the full amount of your share of net long-term gain or loss from partnerships and common trust funds 171.89
7. Enter sum of long-term gains or losses or difference between long-term gains and losses shown above $ 7190.23

	Gain or loss to be taken into account: (a) Gain	(b) Loss
8. Enter net short-term gain or loss from line 4	$	$ 2.03
9. Enter net long-term gain or loss from line 7	$ 7190.23	$
Use lines 10 through 13 only if gains exceed losses in lines 8 and 9.		
10. Enter short-term gain (line 8, col. a) reduced by any long-term loss (line 9, col. b)	$	x x x x x
11. Enter long-term gain (line 9, col. a) reduced by any short-term loss (line 8, col. b)	$ 7188.20	x x x x x
12. Enter 50 percent of line 11	$ 3594.10	x x x x x
13. Enter here and on line 1, Schedule D, page 2, Form 1040, the sum of lines 10 and 12	$ 3594.10	x x x x x
Use lines 14 and 15 only if losses exceed gains in lines 8 and 9		
14. Enter the excess of losses over gains on lines 8 and 9	x x x x x	$
15. Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following (a) the amount on line 14, (b) net income computed without regard to capital gains and losses, or (c) $1,000	x x x x x	$

COMPUTATION OF ALTERNATIVE TAX

Use only if you had a net long-term capital gain or an excess of net long-term capital gain over net short-term capital loss, and line 5 or 8(a), page 3, Form 1040, exceeds $14,000

16. Enter from page 3, Form 1040, the income from line 5 if separate return or line 8 (a) if joint return	$ 19992.34
17. Enter amount from line 12, col. a, if separate return or half of such amount if joint return	3594.10
18. Balance (line 16 less line 17)	$ 16398.24
19. Enter tax on amount on line 18 (use appropriate Tax Rate Schedule in Form 1040 Instructions)	$ 6039.01
20. If joint return, multiply amount on line 19 by two	$
21. Enter 52 percent of amount on line 17	$ 1868.93
22. If joint return, multiply amount on line 21 by two	$
23. Alternative tax (line 19 plus line 21 if separate return, line 20 plus line 22 if joint return)	$ 7907.94
24. Enter tax from page 3, Form 1040 (either line 7, or line 8 (c), whichever is applicable)	$ 8111.48
25. Tax liability (line 23 or 24, whichever is smaller) Enter here and also on line 9, page 3, Form 1040	$ 7907.94

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Kind of property	2. Date acquired (Mo. Day Year)	3. Date sold (Mo. Day Year)	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)
1			$	$	$	$	$

2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter on line 2, Schedule D, page 2, Form 1040.

3332 Giles Avenue, Chicago, Ill. 110

Marzalie Schlude. [fol. 84]

Year 1952.

Rental Income		$510.00
Expenses		
Insurance	$ 25.73	
Roof & Brick repair	27.50	
Real estate taxes	62.54	
Plastering & decorating	80.00	
Legal & trust fees	10.00	
Depreciation	111.39	317.16
Net Income		$192.84
Marzalie Schlude 100%		$192.84

Depreciation.

1. Brick House
2. 1941
3. $870.57
4. $313.62
5. $556.95
6. 15 Years
7. 5 Years
8. $111.39

[fol. 85] Marzalie Schlude.

Year 1952.

Rent Income		$530.00
Expenses		
Management	$ 26.50	
Insurance	132.38	
Plumbing & boiler	28.50	
Real estate taxes	565.97	
Supplies	7.53	
Depreciation	120.00	880.88
Net Loss		($350.88)
Marzalie Schlude 50%		$175.44
Bayard W. Biossat 25% 6756 Oglesby Ave. Chicago, Ill.		$87.72
Lendol D. Snow 25% 2542 W. 101st Street Chicago, Ill.		$87.72
		$350.88

Depreciation.

1. Store & flat
2. 9-18-47
3. $2,031.23
4. $ 173.23
5. $1,858.00
6. 20 Years
7. 15½ Years
8. $ 120.00

 7801 South Shore Drive, Chicago, Ill

[fol. 86] Marzalie Schlude

Year 1952.

Rent Income		$643.50
Expenses		
Management	$ 35.00	
Water	12.00	
Insurance	12.12	
Plumbing & boiler	7.50	
Real estate taxes	333.05	399.67
Net Income Before Depreciation		$242.83
Marzalie Schlude 50%		$121.92
Harry A. Biossat 50% 6818 Bennett Ave. Chicago, Ill.		121.91
		$243.83
Marzalie Schlude		$121.92
Depreciation—Taxpayers share		404.69
Net Loss		$282.77

Depreciation.

1. Frame House
2. 12-31-49
3. $6,067.34
4. $5,257.97
5. $ 809.38
6. 15 Years
7. 13 Years
8. $ 404.69

ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE ON PAGE 4 OR STANDARD DEDUCTION ON LINE 2 BELOW

If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize

Describe Deductions and state to whom paid. If more space is needed, attach additional sheets.

Contributions	Church	$ 25.00	
	Partnership	89.00	
	Allowable Contributions (not in excess of 20 percent of item 4, page 1)		$ 114.00
Interest	Mortgage on home	$ 301.47	
	Total Interest		301.47
Taxes	Proportionate share of real estate taxes paid through estate of Harry A. Blossat deceased	$ 3228.96	
	Personal Property tax	21.32	
	Total Taxes		3250.28
Losses from fire, storm, or other casualty, or theft		$	
	Total Allowable Losses (not compensated by insurance or otherwise)		
Medical and dental expenses (*if over 65 see Instructions*)		$	
	Net Expenses (not compensated by insurance or otherwise)	$	
	Enter 5 percent of item 4, page 1, and subtract from Net Expenses		
	Allowable Medical and Dental Expenses See Instructions for limitation		
Miscellaneous (*See Instructions*)		$	
	Total Miscellaneous Deductions		
	Total Deductions		$ 3665.75

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1.	Enter amount shown in item 4, page 1. This is your Adjusted Gross Income	$ 24258.09
2.	If deductions are itemized above, enter total of such deductions. If deductions are not itemized ***and line 1, above, is $5,000 or more***: (*a*) married persons filing separately enter $500, (*b*) all others enter 10 percent of line 1, but not more than $1,000	3665.75
3.	Subtract line 2 from line 1. Enter the difference here. This is your Net Income	$ 20,592.34
4.	Multiply $600 by total number of exemptions claimed in item 1E, page 1. Enter total here	600.00
5.	Subtract line 4 from line 3. Enter difference here. (If line 1 includes partially tax-exempt interest, see Instructions)	$ 19992.34
	If line 5 is not more than $2,000—	
6.	Enter 22.2 percent of amount shown on line 5 and disregard lines 7, 8, and 9	$
	If line 5 is more than $2,000—	
7.	**And you are a single person, a married person filing separately, or a head of household—** Single persons and married persons filing separately use Tax Rate Schedule I on page 12 of Instructions to figure tax on amount on line 5, heads of household use Tax Rate Schedule II	$ 8111.48
8.	**And you are filing a joint return—**	
	(*a*) Enter one-half of amount on line 5 — $	
	(*b*) Use Tax Rate Schedule I on page 12 of Instructions to figure tax on amount on line 8 (*a*)	
	(*c*) Multiply amount on line 8 (*b*) by 2	$
9.	If alternative tax computation is made, enter here tax from separate Schedule D	$ 7907.94
	Disregard lines 10, 11, and 12, and copy on line 13 the same figure you entered on line 6, 7, 8 (c), or 9, unless you used itemized deductions	
10.	Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116) — $	
11.	Enter here any income tax paid at source on tax-free covenant bond interest	
12.	Add the figures on lines 10 and 11 and enter the total here	$
13.	Subtract line 12 from line 6, 7, 8 (*c*), or 9. Enter difference here and as item 5 (A), page 1	$ 7907.94

FORM 1040 U. S. Treasury Department Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN
FOR CALENDAR YEAR 1953

1953

or taxable year beginning ...., 1953, and ending ...., 195...

Name MARK E. AND MARZALIE SCHLUDE
(PLEASE PRINT. If this is a joint return of husband and wife, use first names of both)

HOME ADDRESS 459 BEVERLY DRIVE
(PLEASE PRINT. Street and number or rural route)

OMAHA NEBRASKA
(City, town, or post office) (Postal zone number) (State)

Social Security No. A 489-09-3714 B 321-09-2167 Occupation ....

Do not write in these spaces
Serial AF 1020221
(Cashier's Stamp)
1954

Your exemptions

1. List your name. If your wife (or husband) had no income, or if this is a joint return, list also her (or his) name.

A. MARK E. SCHLUDE

B. MARZALIE SCHLUDE
(Your wife's name—do not list if she is filing a separate return or if she had income not included in this return)

Check below if at the end of your taxable year you or your wife were—
65 or over ☐ Blind ☐
65 or over ☐ Blind ☐

On lines A and B below—
If neither 65 nor blind write the figure 1
If either 65 or blind write the figure 2
If both 65 and blind write the figure 3

Number of exemptions for you 1
Number of her (or his) exemptions 1

C. List names of your children (including stepchildren and *legally* adopted children) with 1953 gross incomes of less than $600 who received more than one-half of their support from you in 1953. See Instructions.
Name—and address if different from yours

Enter number of children listed

D. Enter number of exemptions claimed for other close relatives listed in Schedule I on page 2 ....

E. Enter total number of exemptions claimed in A to D above 2

— Please Attach All Original W-2 Forms Here —

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1953, *before payroll deductions*. Persons claiming traveling or reimbursed expenses, see Instructions

Print Employer's Name	Where Employed (City and State)	Total Wages	Income Tax Withheld
		$	$
Enter total →			

3. If you received dividends, interest, or any other income (or loss), give details on page 2 and enter the total here $ 59,222.49

4. Add amounts shown in items 2 and 3, and enter the total here $ 59,222.49

How to figure the tax

(Unmarried or legally separated persons qualifying under Schedule J as "Head of Household," check here ☐.)
IF YOUR INCOME WAS LESS THAN $5,000.—Use the tax table on page 4 *unless you itemize deductions*. The table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.
IF YOUR INCOME WAS $5,000 OR MORE.—Compute tax on page 3. Use standard deduction or itemize deductions, whichever is to your advantage.

Tax due or refund

5. (A) Enter your tax from table on page 4, or from line 13, page 3 $ 26,177.22
(B) Enter your self-employment tax from line 35, separate Schedule C. 162.00
Enter total here → $ 26,339.22

6. How much have you paid on your 1953 income tax?
(A) By tax withheld (in item 2, above). Attach Original Forms W-2 $
(B) By payments on 1953 Declaration of Estimated Tax (include any overpayment on your 1952 tax not claimed as a refund) 25,000.00
Enter total here → 25,000.00

7. If your tax (item 5) is larger than payments (item 6), enter *balance of tax due* here. This balance must be paid in full with return .... $ 1,339.22

8. If your payments (item 6) are larger than your tax (item 5), enter the *overpayment* here → $

Enter amount of item 8 you want $............ (Credited on 1954 estimated tax) $............ (Refunded)

Do you owe any prior year Federal tax for which you have been billed? (Yes or No) No Is your wife (or husband) making a separate return for 1953? (Yes or No) No If "yes," write her (or his) name ....

If you have filed a return for a prior year, state latest year 19 52 Where filed? Omaha

To which District Director's office did you pay amount claimed in item 6 (B), above? Omaha

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Robert J. Davis 2/15/54
(Signature of person, other than taxpayer, preparing this return) (Date)

Mark E. Schlude 3/2/54
(Signature of taxpayer) (Date)

Robert J. Davis - Certified Public Accountant
(Name of firm or employer, if any)

Marzalie Schlude 3/2/54
(Signature of taxpayer's wife or husband if this is a joint return) (Date)

Omaha, Nebraska

EXHIBIT 12-L

EXHIBIT 12-L TO STIPULATION OF FACTS

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Schedule A.—INCOME FROM DIVIDENDS

Name of corporation declaring dividend	Amount	Name of corporation declaring dividend	Amount	
	$		$	
			Enter total here →	$

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount	
	$		$	
			Enter total here →	

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule C, line 23 $
2. Farm profit (or loss) from separate schedule, Form 1040F
3. Partnership, etc., profit (or loss) from Form 1065, Schedule K, Column 3

(Partnership name) (Address)

4. Total of lines 1, 2, 3 $
5. Less: Net operating loss deduction (attach statement)
6. Net profit (or loss) (line 4 less line 5)

Schedule D.—NET GAIN OR LOSS FROM SALES OR EXCHANGES OF CAPITAL ASSETS, ETC.

1. From sale or exchange of capital assets (from separate Schedule D)
2. From sale or exchange of property other than capital assets (from separate Schedule D)

Schedule E.—INCOME FROM ANNUITIES OR PENSIONS

1. Cost of annuity (amount you paid)	$	4. Amount received this year	$
2. Cost received tax-free in past years		5. Excess of line 4 over line 3	
3. Remainder of cost (line 1 less line 2)	$	6. Enter line 5, or 3 percent of line 1, whichever is greater (but not more than line 4)	

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation or depletion (explain in Schedule H)	4. Repairs (attach itemized list)	5. Other expenses (attach itemized list)
	$	$	$	$
1. Totals	$	$	$	$

2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5)

Schedule G.—INCOME FROM OTHER SOURCES INCLUDING ESTATES AND TRUSTS

1. Estate or trust (Name) (Address)
2. Other sources (state nature) SEE A TACHED SCHEDULE [illegible],222 49

Total income (or loss) from above sources (Enter here and as item 3, page 1) $ [illegible],222 49

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule I.—EXEMPTIONS FOR CLOSE RELATIVES OTHER THAN WIFE AND CHILDREN—(See Instructions)

1. Name of dependent relative. Also give address if different from yours	2. Relationship	3. Did dependent, during 1953— (a) Have gross income of $600 or more?	(b) Reside in your home?	(c) Receive entire support from you?	4. If answer to either 3(b) or 3(c) is "No" enter amount spent for dependent's support in 1953 by— You (and your wife if this is a joint return)	Others, and from dependent's own funds
					$	$

Enter here and as item 1D, page 1, the number of other close relatives claimed above

Schedule J.—HEAD OF HOUSEHOLD (See Instructions)
(Not applicable where wife or husband died during taxable year)

If all of the following questions are answered "Yes," you may determine your tax as Head of a Household.

1. Were you unmarried (or legally separated) at the close of your taxable year? (Yes or No)
2. Was your home occupied during the entire taxable year as the principal residence of both yourself and (a) a person for whom you are entitled to an exemption, or (b) your unmarried child, grandchild, or stepchild, even though not a dependent? (Yes or No)

List name(s) and relationship to you

3. Did you furnish more than one-half of the cost of maintaining the household during the taxable year? (Yes or No)
If you did not furnish the entire cost, state total amount furnished by you $, by all others (including those sharing your home) $. Deductions on page 3 are to be determined without reference to this schedule.

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SCHEDULE C (Form 1040) U. S. Treasury Department Internal Revenue Service

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION 1953

(For Computation of Self-Employment Tax, see Page 3)

For Calendar Year 1953 or taxable year beginning ...., 1953, and ending ...., 195...

Name and Address (from Form 1040) ...LL E. SCHLUDE - 459 BEVERLY DRIVE - OMAHA, NEBR.

(Partnerships and joint ventures should file on Form 1065)

(I) Principal business activity (see instructions) BALLROOM DANCING INSTRUCTION (Retail trade, wholesale trade, lawyer, etc.) (Principal product or service)

(II) Business name ARTHUR MURRAY STUDIO (III) Number of places of business 5

(IV) FICA employer identification number, if any (see instructions) 47-035 - 4832

(V) Business address (see instructions) 309 SOUTH 19th STREET, OMAHA NEBRASKA (Street and number or rural route) (City, town, post office) (County) (State)

(VI) Were you the sole proprietor of this business in 1952? Yes ☐ No ☒. If "No," check whether this business in 1953 became a successor to a corporation ☐, a partnership ☐, another sole proprietorship ☐, or started as an entirely new business ☐. Where applicable, give name of such predecessor

Do NOT include cost of goods withdrawn for personal use or deductions not connected with your business or profession

1. Total receipts from business or profession $

COST OF GOODS SOLD

2. Inventory at beginning of year $
3. Merchandise bought for manufacture or sale
4. Cost of labor
5. Material and supplies
6. Other costs (explain in Schedule C-2)
7. Total of lines 2 to 6 $
8. Less inventory at end of year
9. Net cost of goods sold (line 7 less line 8)
10. Gross profit (line 1 less line 9) $

OTHER BUSINESS DEDUCTIONS

11. Salaries and wages not included in line 4 $
12. Rent on business property
13. Interest on business indebtedness
14. Taxes on business and business property
15. Losses of business property (attach statement)
16. Bad debts arising from sales or services
17. Depreciation and obsolescence (explain in Schedule C-1)
18. Repairs (explain in Schedule C-2)
19. Depletion of mines, oil and gas wells, timber, etc. (submit schedule)
20. Amortization of emergency and grain storage facilities (attach statement)
21. Other business expenses (explain in Schedule C-2)
22. Total of lines 11 to 21
23. Enter net profit (or loss) (line 10 less line 22). Also enter on line 24, page 3, and on line 1, Schedule G Summary, Form 1040 $

Schedule C-1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 17

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule C-2. EXPLANATION OF LINES 6, 18, AND 21

Line or Column No.	Explanation	Amount	Line or Column No.	Explanation	Amount
		$			$

16—68343-1

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Name of self-employed person [illegible]

State nature of business, if any, subject to self-employment tax [illegible]

24 Net profit (or loss) shown on line 23, page 1	$	
25 Losses of business property shown on line 15, page 1		
26 Total of lines 24 and 25		$
27 Less: Net income (or loss) from excluded services or sources included in line 26 Specify excluded services or sources		
28 Net earnings from self-employment (line 26 less line 27)		$
29 Net earnings (or loss) from self-employment from partnerships, joint ventures, etc (from column 10, Schedule K, Form 1065)		[illegible]
30 Total net earnings (or loss) from self-employment (line 28 plus line 29) (If total of net earnings is under $400, do not make any entries below)		$ [illegible]
31. Maximum amount subject to self-employment tax	$ 3,600 00	
32. Less: Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance. (If such wages exceed $3,600, enter $3,600)		
33. Maximum amount subject to self-employment tax after adjustment for wages	$ [illegible]	
34. Self-employment income subject to tax—Line 30 or 33, whichever is smaller		$ [illegible]
35. Self-employment tax—2¼ percent of amount on line 34. Enter here and as item 5 (B), page 1, Form 1040		$

IMPORTANT—FILL IN ITEMS BELOW COMPLETELY BUT DO NOT DETACH

SCHEDULE C (Form 1040)
U. S. Treasury Department
Internal Revenue Service

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION 1953

(For Computation of Self-Employment Tax, see Page 3)

For Calendar Year 1953 or taxable year beginning ...., 1953, and ending ...., 195...

Name and Address (from Form 1040) MARZALIE SCHLUDE - 459 BEVERLY DRIVE - OMAHA, NEBR

(Partnerships and joint ventures should file on Form 1065)

(I) Principal business activity (see instructions) BALLROOM DANCING INSTRUCTION (Retail trade, wholesale trade, lawyer, etc.) (Principal product or service)

(II) Business name ARTHUR MURRAY DANCE STUDIO (III) Number of places of business 5

(IV) FICA employer identification number, if any (see instructions) 47-035-4832

(V) Business address (see instructions) 309 SOUTH 19th STREET (Street and number or rural route) OMAHA (City, town, post office) (County) NEBRASKA (State)

(VI) Were you the sole proprietor of this business in 1952? Yes ☐ No ☒. If "No," check whether this business in 1953 became a successor to a corporation ☐, a partnership ☐, another sole proprietorship ☐, or started as an entirely new business ☐. Where applicable, give name of such predecessor

Do NOT include cost of goods withdrawn for personal use or deductions not connected with your business or profession

1. Total receipts from business or profession .... $

COST OF GOODS SOLD

2. Inventory at beginning of year .... $
3. Merchandise bought for manufacture or sale ....
4. Cost of labor ....
5. Material and supplies ....
6. Other costs (explain in Schedule C-2) ....
7. Total of lines 2 to 6 .... $
8. Less inventory at end of year ....
9. Net cost of goods sold (line 7 less line 8) ....
10. Gross profit (line 1 less line 9) .... $

OTHER BUSINESS DEDUCTIONS

11. Salaries and wages not included in line 4 .... $
12. Rent on business property ....
13. Interest on business indebtedness ....
14. Taxes on business and business property ....
15. Losses of business property (attach statement) ....
16. Bad debts arising from sales or services ....
17. Depreciation and obsolescence (explain in Schedule C-1) ....
18. Repairs (explain in Schedule C-2) ....
19. Depletion of mines, oil and gas wells, timber, etc. (submit schedule) ....
20. Amortization of emergency and grain storage facilities (attach statement) ....
21. Other business expenses (explain in Schedule C-2) ....
22. Total of lines 11 to 21 ....
23. Enter net profit (or loss) (line 10 less line 22). Also enter on line 24, page 3, and on line 1, Schedule C Summary, Form 1040 .... $

Schedule C-1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 17

1. Kind of property (If buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Remaining cost or other basis to be recovered	6. Life used in accumulating depreciation	7. Estimated life from beginning of year	8. Depreciation allowable this year
		$	$	$			$

Schedule C-2. EXPLANATION OF LINES 6, 18, AND 21

Line or Column No.	Explanation	Amount	Line or Column No.	Explanation	Amount
		$			$

COMPUTATION OF SELF-EMPLOYMENT TAX

(For old-age and survivors insurance)

Name of self-employed person MALZALIE SCHLUDE

State nature of business, if any, subject to self-employment tax BALLROOM DANCING INSTRUCTION

24. Net profit (or loss) shown on line 23, page 1	$			
25. Losses of business property shown on line 15, page 1				
26. Total of lines 24 and 25			$	
27. Less: Net income (or loss) from excluded services or sources included in line 26. Specify excluded services or sources				
28. Net earnings from self-employment (line 26 less line 27)			$	
29. Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 10, Schedule K, Form 1065)			25,398	18
30. Total net earnings (or loss) from self-employment (line 28 plus line 29) (If total of net earnings is under $400, do not make any entries below)			$25,398	18
31. Maximum amount subject to self-employment tax	$ 3,600	00		
32. Less: Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance. (If such wages exceed $3,600, enter $3,600)				
33. Maximum amount subject to self-employment tax after adjustment for wages	$ 3,600	00		
34. Self-employment income subject to tax—Line 30 or 33, whichever is smaller			$ 3,600	00
35. Self-employment tax—2¼ percent of amount on line 34. Enter here and as item 5 (B), page 1, Form 1040			$ 81	00

GPO 16—55040-1

IMPORTANT—FILL IN ITEMS BELOW COMPLETELY BUT DO NOT DETACH

7801 South Shore Drive.

[fol. 89] Mark and Marzalie Schlude.

Year 1953.

Income		$ 734.50
Expenses		
Management	$ 35.00	
Water	11.80	
Insurance	49.38	96.18
Net Profit		$ 638.32
Taxpayers Share 50%		$ 319.16
Less Depreciation		404.69
Net Loss		$ 85.53

Taxpayers Depreciation	
Date Acquired	12/31/49
Estimate Life	15 Yrs.
Cost	$ 6,067.35
Depreciation 1953	$ 404.69

3332 Giles Avenue.

Mark and Marzalie Schlude. [fol. 90]

Year 1953.

Income		$ 504.00
Expenses		
Insurance	$ 20.79	
Carpenter	76.00	
Real Estate Taxes	68.70	
Plastering and Decorating	250.00	
Depreciation	111.39	526.88
Loss		$ 22.88

Depreciation

Date Acquired	1941
Estimated Life	15 Yr.
Remaining Life	4 Yr.
Cost	$ 870.57
Depreciation 1953	$ 111.39
Depreciation Accumulated to 12/31/52	$ 425.01

[fol. 91]

614-16 Woodland Park.

Mark and Marzalie Schlude.

Year 1953.

Income		$12,931.45
Expenses		
Management	$ 628.15	
Light	910.81	
Gas	470.74	
Water	209.70	
Interest	336.01	
Insurance	230.33	
Janitor	557.50	
Plumbing and Heating	390.68	
Carpenter	316.93	
Roof Gutter and Brick	400.00	
Social Security Taxes	8.55	
Real Estate Taxes	330.12	
Electric Repairs	41.25	
Equipment	141.85	
Plastering and Decorating	474.00	
Coal	931.90	
Supplies	88.28	
Exterminator	36.00	
Ashes	109.50	
Legal	301.50	
Depreciation	1,363.44	8,277.24
		$ 4,654.21
Taxpayers Share—25%		$ 1,163.55

Depreciation	
Date Acquired	12/4/51
Estimated Life	20 Yrs.
Remaining Life	18 Yrs.- 11 Mo.
Cost	$27,261.93
Depreciation	$ 1,363.44

1305 Chicago Avenue.

Mark and Marzalie Schlude. [fol. 92]

Year 1953.

Income		$ 670.00
Expenses		
Management	$ 33.50	
Insurance	160.23	
Plumbing and Heating	94.25	
Roof Gutter and Brick	108.35	
Real Estate Taxes	137.46	
Legal Service	10.00	
Depreciation	134.88	678.67
Net Loss		$ 8.67
Taxpayers Share 50%		$ 4.34

Depreciation

Date Acquired	9/18/47.
Estimated Life	20 Yrs.
Remaining Life	14½ Yrs.
Cost	$ 2,250.33
Depreciation	$ 134.88

Summary of Taxable Income.

[fol. 93] Mark E. and Marzalie Schlude.

Year 1953.

Partnership Income		
Mark E. Schlude	$25,398.18	
Marzalie Schlude	25,398.18	$50,796.36
Estate of Harry A. Biossat—Deceased......		539.19
The Harry A. Biossatt Family Liquidation Trust Loss		(1,250.75)
Oil Income—Override Oil Deal..........		19.08
Dividends—Traux-Traer Common Stock...		100.00
Income (Loss) From Rental Properties—Chicago		
614-16 Woodland	$ 1,163.55	
3332 Giles	(22.88)	
7801 South Shore Drive....	(85.53)	
1305 Chicago	(4.34)	1,050.80
Ordinary Income		$51,254.68
Capital Gains		8,068.71
		$59,323.39
Less Interest Charged on Marginal Account		100.90
		$59,222.49

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY **1953**

For Calendar Year 1953 or taxable year beginning ...., 1953, and ending ...., 195..

Name and address MARK AND MARZALIE SCHLUDI 452 BEV[illegible]LY [illegible]IVE - [illegible]

(1) CAPITAL ASSETS

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)	
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS								
1.			$	$	$	$	$	
2. Enter your share of net short-term gain or loss from partnerships and common trust funds								
3. Enter unused capital loss carry-over from 5 preceding taxable years (attach statement)								
4. Enter sum of short-term gains or losses or difference between short-term gains and losses shown above							$	
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS								
5. SEE ATTACHED SCHEDULE				$	$	$	$ 16137	42
6. Enter the full amount of your share of net long-term gain or loss from partnerships and common trust funds								
7. Enter sum of long-term gains or losses or difference between long-term gains and losses shown above							$16137	42

	Gain or loss to be taken into account (a) Gain		(b) Loss	
8. Enter net short-term gain or loss from line 4	$		$	
9. Enter net long-term gain or loss from line 7	$16137	42	$	
Use lines 10 through 13 only if gains exceed losses in lines 8 and 9.				
10. Enter short-term gain (line 8, col. a) reduced by any long-term loss (line 9, col. b)	$		x x x x	x
11. Enter long-term gain (line 9, col. a) reduced by any short-term loss (line 8, col. b)	$16137	42	x x x x	x
12. Enter 50 percent of line 11	$ 8068	71	x x x x	x
13. Enter here and on line 1, Schedule D, page 2, Form 1040, the sum of lines 10 and 12	$ 8068	71	x x x x	x
Use lines 14 and 15 only if losses exceed gains in lines 8 and 9.				
14. Enter the excess of losses over gains on lines 8 and 9	x x x x	x	$	
15. Enter here and on line 1, Schedule D, page 2, Form 1040, the smallest of the following: (a) the amount on line 14; (b) net income computed without regard to capital gains and losses; or (c) $1,000	x x x x	x	$	

COMPUTATION OF ALTERNATIVE TAX FOR CALENDAR YEAR 1953

Use only if you had a net long-term capital gain or an excess of net long-term capital gain over net short-term capital loss, and line 5 or 8(a), page 3, Form 1040, exceeds $14,000

16. Enter from page 3, Form 1040, the income from line 5 if separate return or line 8 (a) if joint return	$ 28,511	25
17. Enter amount from line 12, column (a), if separate return or half of such amount if joint return	4,034	35
18. Balance (line 16 less line 17)	$ 24,476	90
19. Enter tax on amount on line 18 (use appropriate Tax Rate Schedule in Form 1040 Instructions)	$ 10,990	75
20. If joint return, multiply amount on line 19 by two	$ 21,981	50
21. Enter 52 percent of line 17	$ 2,097	86
22. If joint return, multiply amount on line 21 by two	$ 4,195	72
23. Alternative tax (line 19 plus line 21 if separate return, line 20 plus line 22 if joint return)	$ 26,177	22
24. Enter tax from page 3, Form 1040 (either line 7, or line 8 (c), whichever is applicable)	$ 27,[illegible]7	08
25. Tax liability (line 23 or 24, whichever is smaller). Enter here and also on line 9, page 3, Form 1040	$ 26,177	22

(2) PROPERTY OTHER THAN CAPITAL ASSETS

1. Kind of property	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	6. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	7. Expense of sale	8. Gain or loss (column 4 plus column 5 less sum of columns 6 and 7)	
1.			$	$	$	$	$	
2. Enter here the sum of gains or losses or difference between gains and losses shown above. Also enter on line 2, Schedule D, page 2, Form 1040							$	

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ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE ON PAGE 4 OR STANDARD DEDUCTION ON LINE 2 BELOW—
If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize

Describe deductions and state to whom paid. If more space is needed, attach additional sheets.

Contributions

Total Contributions (not more than 20 percent of item 4, page 1) $

Interest

Total Interest

Taxes

Total Taxes

Losses from fire, storm, or other casualty, or theft

Total Allowable Losses (not compensated by insurance or otherwise)

Medical and dental expenses (*if over 65 see Instructions*)

Net Expenses (not compensated by insurance or otherwise) $
Enter 5 percent of item 4, page 1; subtract from Net Expenses
Allowable Medical and Dental Expenses. See Instructions for limitation

Miscellaneous (*See Instructions*)

Total Miscellaneous Deductions
Total Deductions $

TAX COMPUTATION FOR CALENDAR YEAR [illegible] (For Other Taxable Year Attach Form [illegible])

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income		$ 59,222 49
2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized *and line 1, above, is $5,000 or more:* (*a*) married persons filing separately enter $500, (*b*) all others enter 10 percent of line 1, but not more than $1,000		1,000 00
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income		$ 58,222 49
4. Multiply $600 by total number of exemptions claimed in item 1E, page 1. Enter total here		1,200 00
5. Subtract line 4 from line 3. Enter difference here. (If line 1 includes partially tax-exempt interest, see Instructions)		$ 57,022 49
If line 5 is not more than $2,000—		
6. Enter 22.2 percent of amount shown on line 5 and disregard lines 7, 8, and 9		$
If line 5 is more than $2,000 —		
7. **And you are a single person, a married person filing separately, or a head of household —** Single persons and married persons filing separately use Tax Rate Schedule I on page 12 of Instructions to figure tax on amount on line 5; heads of household use Tax Rate Schedule II		$
8. **And you are filing a joint return —** (*a*) Enter one-half of amount on line 5	$28,511.25	
(*b*) Use Tax Rate Schedule I on page 12 of Instructions to figure tax on amount on line 8 (*a*)	13,678.54	
(*c*) Multiply amount on line 8 (*b*) by 2		$ 27,357 08
9. If alternative tax computation is made, enter here tax from separate Schedule D		$ 2[illegible],177 22
Disregard lines 10, 11, and 12, and copy on line 13 the same figure you entered on line 6, 7, 8 (*c*), or 9, unless you used itemized deductions		
10. Enter here any income tax payments to a foreign country or U. S. possession (attach Form 1116)	$	
11. Enter here any income tax paid at source on tax-free covenant bond interest		
12. Add the figures on lines 10 and 11 and enter the total here		$
13. Subtract line 12 from line 6, 7, 8 (*c*), or 9. Enter difference here and as item 5 (A), page 1		$ 26,177 22

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[Fol. 96]

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FORM 1040 U. S. Treasury Department Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN

FOR CALENDAR YEAR 1954 or other taxable year beginning , 1954, and ending , 195

PLEASE TYPE OR PRINT PLAINLY

1954

Do not write in these spaces

Serial AC1000C48 (Cashier's Stamp)

APR 1 1955

Name (If this is a joint return of husband and wife, use first names of both): MARK E. AND MARZALIE SCHLUDE

Home Address: Street and number or rural route: 459 Beverly Drive

City, town, or post office; Postal zone number; State: OMAHA, NEBRASKA

Your Social Security No. and Occupation: 489-09-3714

Wife's (Husband's) S. S. No. and Occupation: 321-09-2167

EXHIBIT 13-M TO STIPULATION OF FACTS

[fol. 97]

Your exemptions

1. List your name. If your wife (or husband) had no income or if this is a joint return, list also her (or his) name:

A. Mark E. Schlude

B. Marzalie Schlude

(Your wife's name—do not list if she is filing a separate return or if she had income not included in this return)

Check below if at the end of your taxable year you or your wife were—

65 or over ☐ Blind ☐

65 or over ☐ Blind ☐

On lines A and B below— If neither 65 nor blind write the figure 1; If either 65 or blind write the figure 2; If both 65 and blind write the figure 3

Number of exemptions for you ... 1

Number of her (or his) exemptions ... 1

C. List names of your children who qualify as dependents; give address if different from yours. Enter number of children listed →

D. Enter number of exemptions claimed for other individuals listed in Schedule I on page 2.

E. Enter total number of exemptions claimed in A to D above ... 2

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1954, *before payroll deductions*. Persons claiming traveling, transportation, or reimbursed expenses, and Outside Salesmen, see instructions.

A. Employer's Name	B. Where Employed (City and State)	C. Total Wages, Etc.	D. Income Tax Withheld
		$	$
	Enter totals here →	$	$

3. Less excludable portion received under wage continuation plans for sickness or injury. (See instructions) ... $

4. Balance (item 2 less item 3) ... $

5. If you received dividends, interest, or any other income (or loss), give details on page 2 ... Enter total here → 70484 97

6. Adjusted Gross Income (sum of items 4 and 5) ... Enter total here → $ 70484 97

How to figure the tax

(Unmarried or legally separated persons qualifying as "Head of Household," check here ☐. See instructions.)

(Surviving widows and widowers who qualify for special tax computation, check here ☐. See instructions.)

IF YOUR INCOME WAS LESS THAN $5,000—Use Tax Table *unless you itemize deductions.* This table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.

IF YOUR INCOME WAS $5,000 OR MORE—Compute tax on page 3. Itemize or use standard deduction, whichever is to your advantage.

Tax due or refund

7. Enter your tax from the Tax Table, or from line 13, page 3 ... $ 31692 44

8. Less: A. Dividends received credit (line 8 of Schedule J) ... $

B. Retirement income credit (line 10 of Schedule K)

9. Balance (item 7 less the sum of items 8A and 8B) ... $ 31692 44

10. Enter your self-employment tax from line 36, separate Schedule C ... 216 00

11. Add amounts shown in items 9 and 10 ... $ 31908 44

12. Credits for amounts paid on your 1954 income tax:

A. Tax withheld (in item 2, Column D above). Attach Forms W-2 ... $

B. Payments on 1954 Declaration of Estimated Tax. Indicate District Director's office where paid. Omaha, Nebraska ... 35000 00 ... $ 35000 00

13. If your tax (item 11) is larger than payments (item 12), the balance must be paid in full with return. Enter such *balance* here ... $

14. If your payments (item 12) are larger than your tax (item 11) Enter the *overpayment* here → $ 3091 56

Enter amount of item 14 you want: Credited on 1955 estimated tax $ 3091 56 Refunded $

● Make check or money order payable to District Director, I. R. S., for amount, if any, shown in item 13.

Do you owe any other Federal tax? ☐ Yes ☒ No. If "Yes," to which District Director's office and what kind of tax.

Is your wife (or husband) making a separate return for 1954? ☐ Yes ☒ No. If "Yes," write her (or his) name.

Did you pay anyone for assistance in the preparation of your return? ☒ Yes ☐ No. If "Yes," enter his name and address. R. J. Davis, CPA, Omaha, Neb.

● ATTACH TAX RETURN—COPIES OF FORMS W-2 HERE ●

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Mark E Schlude 3/31/55 Marzalie Schlude 3/31/55

(Signature of taxpayer) (Date) (Signature of taxpayer's ...) (Date)

● To secure split-income benefits, husband and wife must include all their income and, even though only one ...

EXHIBIT 13-M

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Schedule A.—INCOME FROM DIVIDENDS (See instructions)

1. Enter amount of dividends reported on line 6 of Schedule I .... $ [illegible]
2. Enter total of all other dividends (itemized below, listing name of corporation and amount)

See attached schedule

Enter total here→ $ [illegible] | [illegible]

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount
	$		$

Enter total here→

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule(s) C, line(s) 24 .... $
2. Farm profit (or loss) from separate schedule, Form 1040F ....
3. Partnership, etc., profit (or loss) from Form 1065, Schedule K ....
   Partnership name and address
4. Total of lines 1, 2, and 3 .... $
5. Less: Net operating loss deduction (Attach statement) ....
6. Net profit (or loss) (line 4 less line 5) ....

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

1. From sale or exchange of property other than capital assets (from separate Schedule D) ....
2. From sale or exchange of capital assets (from separate Schedule D) .... 85 | 32

Schedule E.—INCOME FROM PENSIONS OR ANNUITIES (See instructions)

Part I.—General Rule

1. Investment in contract .... $
2. Expected return .... $
3. Percentage of income to be excluded (line 1 divided by line 2) .... %
4. Amount received this year .... $
5. Amount excludable (line 4 multiplied by line 3) .... $
6. Taxable portion (excess of line 4 over line 5) ....

Part II.—Where your cost will be recovered within three years and your employer has contributed part of the cost

1. Cost of annuity (amounts paid in) .... $
2. Cost received tax-free in past years ....
3. Remainder of cost (line 1 less line 2) .... $
4. Amount received this year .... $
5. Taxable income (excess of line 4 over line 3) ....

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation (explain in Schedule H) or depletion	4. Repairs (attach itemized list)	5. Other expenses (attach itemized list)
	$	$	$	$
1. Totals	$	$	$	$

2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5) ....

Schedule G.—INCOME FROM OTHER SOURCES INCLUDING ESTATES AND TRUSTS

1. Estate or trust (Name and address) ....
2. Other sources (state nature) .... See attached Schedule .... 6[illegible],17 | 91

TOTAL INCOME (OR LOSS) FROM ABOVE SOURCES (Enter here and as item 5, page 1) .... $ 7,[illegible]4 | 97

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (If buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
		$	$			$

Sch. I.—EXEMPTIONS FOR INDIVIDUALS WITH GROSS INCOME OF LESS THAN $600, OTHER THAN WIFE AND CHILDREN

1. Name of individual. Also give address if different from yours	2. Relationship	3. Did individual have gross income of $600 or more in 1954?	4. If answer to 3 is "No" enter amount spent for individual's support in 1954 by— You (and your wife if this is a joint return). If 100%, write "all"	Others, and by individual from own funds
			$	$

Enter here and as item 1D, page 1, the number of individuals claimed above

NOTE.—If exemption is based on your being designated as the one to claim a dependent, the necessary multiple support agreement must be attached.

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[fol. 98] Mark and Marzalie Schlude.

Year 1954.

	Mark Schlude	Marzalie Schlude	Total
Partnership Income (Fiscal Period April 1, 1953 to March 31, 1954)			
Per Partnership Return	$34,546.57	$34,546.56	$69,093.13
Less Dividend Income received 4/1/53 to 1/1/54	240.87	240.87	481.74
	$34,305.70	$34,305.69	$68,611.39
Less Dividends received 1/1/54 to 3/31/54	46.25	46.25	92.50
	$34,259.45	$34,259.44	$68,518.89
Net Loss—Override Oil Deal			(124.31)
Income (Loss) From Rental Properties—Chicago			
614-16 Woodland Park		$ 808.97	
3332 Giles Avenue		408.34	
7801 South Shore Drive		(447.70)	
1305 Chicago Avenue		135.37	904.98
4702 Cass Company—Omaha, Nebraska			618.35
Ordinary Income			$69,917.91

[fol. 145] Override Oil Deal.

Mark and Marzalie Schlude.

Year 1954.

Oil Income	$ 25.69
Less Cost amortization	150.00
Net Loss	($124.31)

10 Year Amortization Cost ..$1,500.00

614-16 Woodland Park.

Mark and Marzahe Schlude.

Year 1954.

Income		$12,505.53
Expenses		
Management	$ 623.91	
Light	1,021.72	
Gas	429.98	
Water	257.40	
Interest	262.60	
Insurance	120.53	
Janitor	660.00	
Plumbing & Heating	545.94	
Carpenter	594.23	
Roof, Gutter & Brick	363.00	
Social Security	12.19	
Real Estate Taxes	385.04	
Electric Repairs	87.60	
Equipment	18.00	
Plastering & Decorating	854.74	
Coal	904.31	
Supplies	262.85	
Exterminator	26.00	
Ashes and Hauling	153.50	
Legal Service	126.00	
Sewer and Boiler	230.70	
Depreciation	1,363.44	9,269.65
		$ 3,235.88
Taxpayers' Share, 25		$ 808.97

Depreciation

Date acquired	Dec. 4, 1951
Estimated Life	20 Years
Remaining Life	17 Yr. 11 Mos.
Cost	$27,268.93
Depreciation	$ 1,363.44

[illegible] Mark and Marcella S[illegible]

Year 1954

Income		[illegible]
Expenses		
Real Estate Taxes	$ [illegible]	
Plastering & Decorating	[illegible]	
Depreciation	111.29	[illegible]
Profit		$ [illegible]

Depreciation

Date acquired	1941
Estimated Life	15 yrs.
Remaining Life	[illegible] yrs.
Cost	$ [illegible]
Depreciation 1954	$111.29
Depreciation accumulated to Dec. 31, 1953	$ [illegible]

Mark and Marzalie Schlude [fol. 101]

Year 1954

Income		$ 800.00
Expense		
Management	$ 35.00	
Water	2.60	
Insurance	45.75	
Plumbing and Heating	110.00	
Real Estate Taxes	691.72	886.07
Net Loss		($ 86.07)
Taxpayers Share 50%		($ 43.01)
Depreciation		404.69
Net Loss		($ 447.70)

Taxpayers Depreciation

Date acquired	Dec 31, 1949
Estimated Life	15 years
Cost	$ 6,067.35
Depreciation 1954	$ 404.69

[fol. 102]

1305 Chicago Avenue

Mark and Marzalie Schlude

Year 1954

Income		$ 780.00
Expense		
Management	$ 39.00	
Insurance	114.75	
Roof, Gutter and Brick	34.00	
Real Estate Taxes	138.14	
Sewer and Boiler	48.50	
Depreciation	134.88	509.27
Net Profit		$ 270.73
Taxpayers Share 50%		$ 135.37

Depreciation	
Date acquired	Sept. 18, 1947
Estimated Life	20 Years
Remaining Life	14½ Years
Cost	$ 2,250.33
Depreciation 1954	$ 134.88

Mark and Marzalie Schlude.

[fol. 103]

Year 1954.

Income Oct. 1, 1954 to Dec. 31, 1954		$ 4,669.25
Expenses Oct. 1, 1954 to Dec. 31, 1954		
Heat	$ 204.36	
Electricity	77.49	
Gas and Water	60.76	
Custodian Expense	50.00	
Depreciation—Building	1,395.78	
Depreciation—Furniture & Fixtures	255.98	
Real Estate Taxes	846.00	
Building Repairs	119.46	
Interest	800.21	
Mortgage Expenses	56.32	
Collection Expense	45.00	4,050.90
Net Profit		$ 618.35

Depreciation—Building

Sum of Digits Method

Date acquired	Oct. 1, 1954
Life	34 Yr
Cost	$97,704.80
Depreciation 10-1-54 to 12-31-54 (34/595 × 97704.80 = 5582.14 1/4 of 5582.14)	$ 1,395.78

Depreciation—Furniture and Fixtures

Straight line method

Date acquired Oct. 1, 1954

	Cost	Life	Depreciation 10-1-54 to 12-31-54
Heating Plant	$7,530.61	10 yrs.	$188.26
Refrigerators	1,167.16	3 yrs.	97.26
Ranges	626.63	3 yrs.	52.55
Carpets, Miscellaneous	139.26	2 yrs.	17.41
			$255.98

Sale of Lot 297 in the Berwyn Subdivision Chicago.

[fol. 104]

Mark and Marzalie Schlude.

Year 1954.

Kreen and Dato Lots

Date Acquired	1939
Date Sold	1954
Sales Price	$500.00
Cost Price	$158.72
Long term capital gain	$341.28
Taxpayers Share of Gain 50%	$170.64

[fol. 152] Additional Information.

On October 1, 1954 Mark and Marzalie Schlude of 309 South 19th Street, Omaha, Nebraska purchased all of the outstanding stock of the corporation from R. W. Dillon and immediately thereafter on October 1, 1954, dissolved the corporation. The stock was purchased by Mark and Marzalie Schlude in order to acquire the assets of the corporation. The total purchase price of the stock amounted to $64,641.12 and the assets and liabilities of the company were taken into account October 1, 1954 in the books of account of Mark and Marzalie Schlude, as shown by the separate attached balance sheet. Mark and Marzalie Schlude paid $64,641.12 for the net assets of the company whereas the net assets carried on the corporations books amounted only $36,043.34, or an increase of $28,597.78. A reconcilement of the total purchase price to the capital account is presented below:

Total Purchase Price		$64,641.12
Less Borrowed Funds		15,536.52
		$49,104.60
Cash Advanced For:		
Mortgage Escrow Deposit	$811.05	
Mortgage Expense	36.35	847.40
Capital—Mark and Marzalie Schlude		$49,952.00

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY
USE WITH INDIVIDUAL, FIDUCIARY, OR PARTNERSHIP RETURNS

1954

For Calendar Year 1954, or other taxable year beginning ...., 1954, and ending ...., 195

Name and Address

Check type of return filed: ☐ Form 1040 ☐ Form 1041 ☐ Form 1065

(I) PROPERTY OTHER THAN CAPITAL ASSETS

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)
1.			$	$	$	$	$

2. Net gain (or loss). Enter here and on line 1, Schedule D, Form 1040, or as item 8 (a), page 1, Form 1041, or as item 11, page 1, Form 1065 .... $

(II) CAPITAL ASSETS

Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months

3.			$	$	$	$	$

4. Enter your share of net short-term gain (or loss) from partnerships and fiduciaries ....
5. Enter unused capital loss carryover from 5 preceding taxable years (Attach statement) ....
6. Net short-term gain (or loss) from lines 3, 4, and 5. Enter here and in Schedule D, Form 1041, or as item 26, page 1, Form 1065 .... $

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

7.			$	$	$	$	$
See Attached Schedule							170.64

8. Enter the full amount of your share of net long-term gain (or loss) from partnerships and fiduciaries ....
9. Net long-term gain (or loss) from lines 7 and 8. Enter here and in Schedule D, Form 1041, or as item 27, page 1, Form 1065 .... $ 170.64

● **LINES 10 THROUGH 25 NOT APPLICABLE TO FIDUCIARIES AND PARTNERSHIPS**

Gain or Loss To Be Taken Into Account	a. Gain	b. Loss
10. Enter net short-term gain (or loss) from line 6	$	$
11. Enter net long-term gain (or loss) from line 9	$ 170.64	$
Use lines 12 through 15 only if gains exceed losses in lines 10 and 11.		
12. Enter short-term gain (line 10, col. a) reduced by any long-term loss (line 11, col. b)	$	
13. Enter long-term gain (line 11, col. a) reduced by any short-term loss (line 10, col. b)	$ 170.64	
14. Enter 50 percent of line 13	$ 85.32	
15. Enter here and on line 2, Schedule D, Form 1040, the sum of lines 12 and 14	$ 85.32	
Use lines 16 and 17 only if losses exceed gains in lines 10 and 11.		
16. Enter the excess of losses over gains on lines 10 and 11		$
17. Enter here and on line 2, Schedule D, Form 1040, the smallest of the following: (a) the amount on line 16; (b) taxable income computed without regard to capital gains and losses and the deduction for exemptions; or (c) $1,000 ..		$

COMPUTATION OF ALTERNATIVE TAX FOR INDIVIDUALS (Form 1040)

(See instructions on other side as to when the alternative tax applies)

18. Enter from page 3, Form 1040, the income from line 5 if separate return or line 7 (a) if joint return	$ 34142.49
19. Enter amount from line 14, column a, above, if separate return, or half of such amount if joint return	42.66
20. Balance (line 18 less line 19)	$ 34099.83
21. Enter tax on amount on line 20 (Use applicable Tax Rate Schedule in Form 1040 Instructions)	$ 15824.89
22. If joint return, multiply amount on line 21 by two	$ 31649.78
23. Enter 50 percent of line 19	$ 21.33
24. If joint return, multiply amount on line 23 by two	$ 42.66
25. Alternative tax (line 21 plus line 23 if separate return; line 22 plus line 24 if joint return). If smaller than amount on line 6 or line 7(c), page 3, Form 1040, enter this alternative tax on line 8, page 3, Form 1040	$ 31692.44

NOTE.—In lines 18 to 25 the treatment in the case of a joint return is also applicable to a return of a surviving widow or widower.

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SCHEDULE C (Form 1040)
U. S. Treasury Department
Internal Revenue Service

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION

(For Computation of Self-Employment Tax, see Page 3)
PARTNERSHIPS AND JOINT VENTURES SHOULD FILE ON FORM 1065

1954

For Calendar Year 1954 or other taxable year beginning ...., 1954, and ending ...., 195...

Owner's Name and Address (from Form 1040)
MARZALIE SCHLUDE - 459 BEVERLY DRIVE OMAHA, NEBRASKA

Item (see instructions—page 2)

A. Principal business activity
BALLROOM DANCING (Retail trade, wholesale trade, lawyer, etc.) INSTRUCTION (Principal product or service)

B. Business name ARTHUR MURRAY DANCE STUDIO

C. Number of places of business 6

D. Did you pay social security taxes for any employees for any quarter of 1954? ☐ Yes ☐ No

E. Enter your employer identification number, if any 47 035 4832

F. Business address 309 So. 19th Street (Street and number or rural route) Omaha (City, town, post office) Douglas (County) Nebraska (State)

G. How many months in the year did you own this business? ....
Did you own this business on December 31, 1954? ☒ Yes ☐ No
Was this a seasonal business which was closed for more than two months during the year? ☐ Yes ☒ No

Line (see instructions—page 2)

1. Total receipts $............, less allowances, rebates, and returns $............ $
2. Inventory at beginning of year .... $
3. Merchandise purchased $............, less any items withdrawn from business for personal use $............ $
4. Cost of labor (do not include salary paid to yourself)
5. Material and supplies
6. Other costs (explain in Schedule C-2)
7. Cost of goods manufactured or purchased (total of lines 3, 4, 5, and 6)
8. Total of line 2 plus line 7 .... $
9. Enter inventory at end of year
10. Cost of goods sold (line 8 less line 9)
11. Gross profit (line 1 less line 10) .... $

OTHER BUSINESS DEDUCTIONS

12. Salaries and wages not included in line 4 (except any paid to yourself) $
13. Rent on business property
14. Interest on business indebtedness
15. Taxes on business and business property
16. Losses of business property (attach statement)
17. Bad debts arising from sales or services
18. Depreciation and obsolescence (explain in Schedule C-1)
19. Repairs (explain in Schedule C-2)
20. Depletion of mines, oil and gas wells, timber, etc. (attach schedule)
21. Amortization of emergency and grain storage facilities (attach statement)
22. Other business expenses (explain in Schedule C-2)
23. Total of lines 12 to 22
24. Enter net profit (or loss) (line 11 less line 23). Also enter on line 25, page 3 of this schedule, and on line 1, Schedule C Summary, Form 1040 .... $

Schedule C-1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 18

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
		$	$			$

Schedule C-2. EXPLANATION OF LINES 6, 19, AND 22

Line No.	Explanation	Amount	Line No.	Explanation	Amount
		$			$

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IMPORTANT—If you have more than one business, a separate page 1 must be completed for each business. However, only one page 3 should be completed and filed showing the aggregate net profit from such businesses.

(See Instructions—Page 4)

COMPUTATION OF SELF-EMPLOYMENT TAX
(For old-age and survivors insurance)

NAME OF SELF-EMPLOYED PERSON (a separate schedule must be filed for each self-employed person)

MARZALIE SCHLUDE

STATE BUSINESS ACTIVITIES, IF ANY, SUBJECT TO SELF-EMPLOYMENT TAX (for example: Restaurant, Building Contractor)

BALLROOM DANCING INSTRUCTION

Line (See instructions—Page 4)				
25. Net profit (or loss) shown on line 24, page 1 (Enter aggregate amount if more than one business)	$			
26. Losses of business property shown on line 16, page 1				
27. Total of lines 25 and 26			$	
28. Less: Net income (or loss) from excluded services or sources included in line 27. Specify excluded services or sources				
29. Net earnings from self-employment (line 27 less line 28)			$	
30. Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 11, Schedule K, Form 1065)			34546	56
31. Total net earnings (or loss) from self-employment (line 29 plus line 30) (If total of net earnings is under $400, do not make any entries below)			$ 34546	56
32. Maximum amount subject to self-employment tax	$ 3,600	00		
33. Less: Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance. (If such wages exceed $3,600, enter $3,600)	None			
34. Maximum amount subject to self-employment tax after adjustment for wages	$ 3600	00		
35. Self-employment income subject to tax—Line 31 or 34, whichever is smaller			$ 3600	00
36. Self-employment tax—3 percent of amount on line 35. Enter here and as item 10, page 1, Form 1040			$ 108	00

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IMPORTANT—FILL IN ITEMS BELOW COMPLETELY BUT DO NOT DETACH

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SCHEDULE C (Form 1040) · U.S. Treasury Department · Internal Revenue Service

PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION

(For Computation of Self-Employment Tax, see Page 3)

PARTNERSHIPS AND JOINT VENTURES SHOULD FILE ON FORM 1065

1954

For Calendar Year 1954 or other taxable year beginning ...., 1954, and ending ...., 195

Owner's Name and Address (from Form 1040)

MARK E. SCHLUDE - 459 BEVERLY DRIVE - OMAHA, NEBRASKA

Item (see instructions—page 2)

A. Principal business activity BALLROOM DANCING (Retail trade, wholesale trade, lawyer, etc.) INSTRUCTION (Principal product or service)

B. Business name ARTHUR MURRAY DANCE STUDIO

C. Number of places of business 6

D. Did you pay social security taxes for any employees for any quarter of 1954? [X] Yes [ ] No.

E. Enter your employer identification number, if any 470354832

F. Business address [illegible] South [illegible] Street (Street and number or rural route) Omaha (City, town, post office) Douglas (County) Nebraska (State)

G. How many months in the year did you own this business? .... Did you own this business on December 31, 1954? [X] Yes [ ] No Was this a seasonal business which was closed for more than two months during the year? [ ] Yes [X] No

Line (see instructions—page 2)

1. Total receipts $............, less allowances, rebates, and returns $			$
2. Inventory at beginning of year		$	
3. Merchandise purchased $............, less any items withdrawn from business for personal use $............	$		
4. Cost of labor (do not include salary paid to yourself)			
5. Material and supplies			
6. Other costs (explain in Schedule C-2)			
7. Cost of goods manufactured or purchased (total of lines 3, 4, 5, and 6)			
8. Total of line 2 plus line 7		$	
9. Enter inventory at end of year			
10. Cost of goods sold (line 8 less line 9)			
11. Gross profit (line 1 less line 10)			$

OTHER BUSINESS DEDUCTIONS

12. Salaries and wages not included in line 4 (except any paid to yourself)	$	
13. Rent on business property		
14. Interest on business indebtedness		
15. Taxes on business and business property		
16. Losses of business property (attach statement)		
17. Bad debts arising from sales or services		
18. Depreciation and obsolescence (explain in Schedule C-1)		
19. Repairs (explain in Schedule C-2)		
20. Depletion of mines, oil and gas wells, timber, etc. (attach schedule)		
21. Amortization of emergency and grain storage facilities (attach statement)		
22. Other business expenses (explain in Schedule C-2)		
23. Total of lines 12 to 22		
24. Enter net profit (or loss) (line 11 less line 23). Also enter on line 25, page 3 of this schedule, and on line 1, Schedule C Summary, Form 1040		$

Schedule C-1. EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED ON LINE 18

1. Kind of property (if buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
		$	$			$

Schedule C-2. EXPLANATION OF LINES 6, 19, AND 22

Line No.	Explanation	Amount	Line No.	Explanation	Amount
		$			$

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[illegible]

COMPUTATION OF SELF-EMPLOYMENT TAX
(For old-age and survivors insurance)

NAME OF SELF-EMPLOYED PERSON (a separate schedule must be filed for each self-employed person)

MARK E. SCHLUDE

STATE BUSINESS ACTIVITIES, IF ANY, SUBJECT TO SELF-EMPLOYMENT TAX (for example: Restaurant, Building Contractor)

BALLROOM DANCING INSTRUCTION

Line (See instructions—Page 4)				
25. Net profit (or loss) shown on line 24, page 1 (Enter aggregate amount if more than one business)	$			
26. Losses of business property shown on line 16, page 1				
27. Total of lines 25 and 26			$	
28. Less: Net income (or loss) from excluded services or sources included in line 27. Specify excluded services or sources				
29. Net earnings from self-employment (line 27 less line 28)			$	
30. Net earnings (or loss) from self-employment from partnerships, joint ventures, etc. (from column 11, Schedule K, Form 1065)			34546	57
31. Total net earnings (or loss) from self-employment (line 29 plus line 30) (If total of net earnings is under $400, do not make any entries below)			$ 34546	57
32. Maximum amount subject to self-employment tax	$ 3,600	00		
33. Less: Wages paid to you during the taxable year which were subject to withholding for old-age and survivors insurance. (If such wages exceed $3,600, enter $3,600)	None			
34. Maximum amount subject to self-employment tax after adjustment for wages	$ 3600	00		
35. Self-employment income subject to tax—Line 31 or 34, whichever is smaller			$ 3600	00
36. Self-employment tax—3 percent of amount on line 35. Enter here and as item 10, page 1, Form 1040			$ 108	00

IMPORTANT—FILL IN ITEMS BELOW COMPLETELY BUT DO NOT DETACH

ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE OR STANDARD DEDUCTION

If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize.

Describe deductions and state to whom paid. If more space is needed, attach additional sheets

Contributions

$

Total Contributions (not to exceed 20 percent of item 6, page 1, except where contributions to churches, schools, and hospitals are included). (See instructions) $

Interest

$

Total Interest

Taxes

$

Total Taxes

Medical and dental expense (*If over 65, see instructions*)

Do not enter any expense compensated by insurance or otherwise	A. Medicine and Drugs	B. Other
1. Net Expenses (Attach itemized list)	$	$
2. Enter in Column A, 1 percent of item 6, page 1		
3. Enter in Column B, excess of Column A, line 1 over line 2		
4. Total of Column B, lines 1 and 3		$
5. Enter 3 percent of item 6, page 1		
6. Allowable amount (excess of line 4 over line 5). (See instructions for limitations)		

Child Care

Expenses for care of children and certain other dependents (see instructions). Not to exceed $600. (Attach statement)

Losses from fire, storm, or other casualty, or theft

$

Total Allowable Losses (not compensated by insurance or otherwise)

Miscellaneous

$

Total Miscellaneous Deductions

TOTAL DEDUCTIONS (Enter on line 2 of Tax Computation, below) $ ✓

TAX COMPUTATION

1. Enter Adjusted Gross Income as shown in item 6, page 1	$ 70484	97
2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized *and line 1, above, is $5,000 or more*: (a) married persons filing separately enter $500; (b) all others enter 10 percent of line 1, but not more than $1,000	1000	00
3. Subtract line 2 from line 1. Enter the difference here	$ 69484	97 ✓
4. Multiply $600 by total number of exemptions claimed in item 1E, page 1. Enter result here	1200	00 ✓
5. Subtract line 4 from line 3. Enter the difference here. This is your Taxable Income	$ 68284	97
6. If you are a single person, a married person filing separately, or a head of household—Single persons and married persons filing separately use Tax Rate Schedule I in the instructions to figure tax on amount on line 5; heads of household use Tax Rate Schedule II	$	
7. If this is a joint return, or if you qualify to file as a surviving widow or widower—		
(a) Enter one-half of amount on line 5 ..... $34142.49		
(b) Use Tax Rate Schedule I in the instructions to figure tax on amount on line 7 (a) ..... 15852.62 ✓		
(c) Multiply amount on line 7 (b) by 2	$ 31705	24
8. If alternative tax is applicable, enter the tax from separate Schedule D	$ 31692	44
Disregard lines 9 through 12, and copy on line 13 the same figure you entered on line 6, 7 (c), or 8, unless you used itemized deductions.		
9. Enter here income tax payments to a foreign country or U.S. possession (Attach Form 1116) ..... $		
10. Enter here any income tax paid at source on tax-free covenant bond interest		
11. Enter here credit for partially tax-exempt interest (See instructions for limitation)		
12. Add the figures on lines 9, 10, and 11. Enter the total here	$	
13. Subtract line 12 from line 6, 7 (c), or 8, whichever is applicable. Enter difference here and as item 7, page 1	$ 31692	44

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S..

Schedule J.—EXCLUSION AND CREDIT FOR DIVIDENDS RECEIVED FROM QUALIFYING DOMESTIC (U.S.) CORPORATIONS. (See instructions)

	A Amount received before 8/1/54	B Amount received after 7/31/54
1. Name of corporation declaring dividend:		
Seattle Gas	$ 60.00	$
So. Calif. Water Company	32.50	
A		
2. Total	$ 92.50	$
3. Less: Exclusion of $50. Apply exclusion first to Col. A and excess, if any, to Col. B	100.00	
4. Balance	$ .000	$
5. Enter in Column B, the amount from Column A, line 4		
6. Total dividends to be entered on line 1, Schedule A, page 2 (total of Column B, lines 4 and 5)		$

CREDIT COMPUTATION

7. (a) 4% of amount on line 4, Column B, above .... $

(b) Tax shown on line 6, 7 (c); or 8, page 3, less the amount, if any, on line 9, page 3; or, if Tax Table is used, the tax in item 7, page 1 .... $

(c) 2% of taxable income—line 5, page 3; if alternative tax is applicable, line 20, Schedule D (twice line 20 in the case of a joint return) .... $

(Taxable income, for those using the Tax Table to compute tax, is the amount shown in item 6, page 1, less 10% thereof and less the deduction for exemptions (item 1E, page 1, multiplied by $600))

8. Enter here and as item 8A, page 1, the smallest of the amounts on lines 7 (a), 7 (b), or 7 (c), above .... $

NOTE: If both husband and wife have qualifying dividends, an exclusion shall be allowed to each on line 3 to the extent of the dividends received but not to exceed $50 each.

Schedule K.—CREDIT FOR RETIREMENT INCOME. (See instructions for definitions and other details)

If separate return, use Column B only. If joint return, use one column for husband and one for wife.	A	B
Did you receive earned income in excess of $600 in each of any 10 calendar years before the taxable year 1954?	☐ Yes ☐ No	☐ Yes ☐ No
If answer above is "Yes" in either column, furnish all information below in that column.		
1. Retirement income for taxable year: (a) **For taxpayers under 65 years of age:** Enter only income received from pensions and annuities under public retirement systems. (Do not enter pensions, annuities, and retirement pay from Armed Forces)	$	$
(b) **For taxpayers 65 years of age and older:** Enter total of pensions and annuities, retirement pay from Armed Forces, interest, rents, and dividends included in gross income in this return	$	$
Limitation on Retirement Income		
2. Enter here amount shown in line 1 or $1,200, whichever is lesser	$	$
3. Deduct: (a) Amounts received in taxable year as pensions or annuities under the Social Security Act, the Railroad Retirement Acts, and certain other exclusions from gross income. (See instructions)		
(b) Compensation for personal services received in the taxable year 1954 in excess of $900 (Line 3 (b) does not apply to persons 75 years of age or over.)		
4. Total of lines 3 (a) and 3 (b)	$	$
5. Balance (line 2 minus line 4)	$	$
6. Tentative credit (20 percent of line 5)	$	$
7. Total tentative credit on this return (total of columns A and B, line 6)		$
Limitation on Retirement Credit		
8. Amount of tax shown as item 7, page 1 .... $		
Less: Credit for dividends from line 8, Schedule J, above		
9. Balance of line 8		$
10. Retirement income credit. Enter here and as item 8B, page 1, the amount on line 7 or line 9, whichever is smaller		$

Statement of Person (other than taxpayer) Preparing Return

I declare under the penalties of perjury that I prepared this return for the person(s) named herein; and that this return (including any accompanying schedules and statements) is, to the best of my knowledge and belief, a true, correct, and complete return based on all the information relating to the matters required to be reported in this return of which I have any knowledge.

Robert J. Davis C.P.A.	City Natl Bk Bldg Omaha	3/29/55
(Signature)	(Address)	(Date)

Schedule Reflecting Contract Amount of Deferred Income and Amount of Deferred Income Collected and Uncollected at End of Each Fiscal Year.

Arthur Murray Dance Studio—A Partnership.

	March 31, 1950	March 31, 1951	March 31, 1952	March 31, 1953	March 31, 1954
Contract Amount of Deferred Income					
Ending Balance	$ 72,611.87	$106,541.70	$131,143.92	$235,942.23	$248,740.30
Beginning Balance	37,844.04	72,611.87	106,541.70	131,143.92	235,942.33
Increase	$ 34,767.83	$ 33,929.83	$ 24,602.22	$104,798.41	$ 12,797.97
Students Accounts Receivable (Installment Contracts Carried by Studio, Notes Not Yet Processed Through the Bank, and Unpaid Balances on Planned Cash Courses)					
Ending Balance	$ 29,999.17	$ 55,241.99	$ 63,627.23	$ 86,698.33	$ 85,177.10
Beginning Balance	10,565.42	29,999.17	55,241.99	63,627.23	86,698.33
Increase or Decrease	$ 19,433.75	$ 25,242.82	$ 8,385.24	$ 23,071.10	$ (1,521.23)
Reserve Fund Held by Bank on Students Notes Financed					
Ending Balance	$ 13,835.78	$ 8,112.28	$ 7,943.74	$ 37,747.61	$ 34,533.22
Beginning Balance	13,404.09	13,835.78	8,112.28	7,943.74	37,747.61
Increase or Decrease	$ 431.69	$ (5,723.50)	$ (168.54)	$ 29,803.87	$ (3,214.39)
Deferred Income Collected—(Considering Reserve Fund Held by Bank as Collected)					
Ending Balance	$ 42,612.70	$ 51,299.71	$ 67,516.69	$149,244.00	$163,563.20
Beginning Balance	27,278.62	42,612.70	51,299.71	67,516.69	149,244.00
Increase	$ 15,334.08	$ 8,687.61	$ 16,216.98	$ 81,727.31	$ 14,319.20
Deferred Income Collected—(Considering Reserve Fund Held by Bank as Not Collected Until Funds Are Released and Made Available for Withdrawal by Bank)					
Ending Balance	$ 28,776.92	$ 43,187.43	$ 59,572.95	$111,496.39	$129,029.92
Beginning Balance	13,874.53	28,776.92	43,187.43	59,572.95	111,496.39
Increase	$ 14,902.39	$ 14,410.51	$ 16,385.52	$ 51,923.44	$ 17,533.53

ENROLLMENT AGREEMENT AND CONTRACT WITH STUDENT FOR INSTRUCTION

I, ______________ of ______________ Phone No. ______

agree to take a course of

Hours	Tuition	Cash Discount	Net	Down Payment

I agree to pay ______ dollars at the time of signing this agreement and I agree to pay the balance as follows: ______________

The Arthur Murray School of Dancing agrees that it will give the above mentioned ______________ lessons within the period covered by this contract.

It is further agreed and understood that I shall not be relieved of my obligation to pay said tuition herein agreed upon, and that no deduction allowance or refunds for any tuition paid and due under this agreement shall be made by reason of my absence or withdrawal. I UNDERSTAND THAT NO REFUNDS WILL BE MADE UNDER THE TERMS OF THIS CONTRACT.

It is further agreed that all lessons shall be arranged for a definite time, and that in the event I wish to cancel any appointment, I agree to notify the Arthur Murray School of Dancing at least 24 hours in advance of my appointment in order to make arrangements for taking the lesson at a later date, proof of illness excepted. I understand that if I do not cancel my appointment 24 hours in advance as stated above, I shall be considered absent and the lesson will be forfeited.

I acknowledge that I have received a copy of this contract at the time of execution and I UNDERSTAND THAT THIS COURSE OF ______ HOURS OF DANCING LESSONS EXPIRES ON ______

Signed this ______ day of ______ 19 ______

ARTHUR MURRAY SCHOOL OF DANCING

Execution and delivery of copy verified by ______

PUPIL ______

Registrar ______

EXHIBIT 15-0

NON CANCELLABLE CONTRACT

BASCO 1147-7

PRTD. U. S. A.

EXTENSION AGREEMENT AND CONTRACT WITH STUDENT FOR INSTRUCTION

I, ______________ of ______________

hereby agree to extend my course of ______ hours to ______ hours and I further agree to pay total tuition for said lessons in the amount of $______

I have paid $______ on my original course.

I have paid $______ today and agree to pay the balance as follows: ______________

The Arthur Murray School of Dancing agrees that it will give the above mentioned ______________ lessons within the period covered by this contract.

It is further agreed and understood that I shall not be relieved of my obligation to pay said tuition herein agreed upon, and that no deduction allowance or refunds for any tuition paid and due under this agreement shall be made by reason of my absence or withdrawal. I UNDERSTAND THAT NO REFUNDS WILL BE MADE UNDER THE TERMS OF THIS CONTRACT.

It is further agreed that all lessons shall be arranged for a definite time, and that in the event I wish to cancel any appointment, I agree to notify the Arthur Murray School of Dancing at least 24 hours in advance of my appointment in order to make arrangements for taking the lesson at a later date, proof of illness excepted. I understand that if I do not cancel my appointment 24 hours in advance as stated above, I shall be considered absent and the lesson will be forfeited.

I acknowledge that I have received a copy of this contract at the time of execution and I UNDERSTAND THAT THIS COURSE OF ______ HOURS OF DANCING LESSONS EXPIRES ON ______

Signed this ______ day of ______ 19 ______

ARTHUR MURRAY SCHOOL OF DANCING

Execution and delivery of copy verified by ______

PUPIL ______

Registrar ______

EXHIBIT 16-P

NON CANCELLABLE CONTRACT

BASCO 1147-7-A

PRTD U S A

of

hereby enroll and agree to take a course of ______________ private lessons, and I further agree to pay tuition for said lessons in the amount of ______________ Dollars.

I agree to pay ______________ Dollars at the time of signing this agreement, and I agree to pay the balance as follows ______________

____

____

The Arthur Murray School of Dancing agrees that it will give the above mentioned ______________ lessons within the period covered by this contract.

It is further agreed and understood that I shall not be relieved of my obligation to pay said tuition herein agreed upon, and that no deduction allowance or refunds for any tuition paid and due under this agreement shall be made by reason of my absence or withdrawal. I UNDERSTAND THAT NO REFUNDS WILL BE MADE UNDER THE TERMS OF THIS CONTRACT.

It is further agreed that all lessons shall be arranged for a definite time, and that in the event I wish to cancel any appointment, I agree to notify the Arthur Murray School of Dancing at least 24 hours in advance of my appointment in order to make arrangements for taking the lesson at a later date, proof of illness excepted. I understand that if I do not cancel my appointment 24 hours in advance as stated above, I shall be considered absent and the lesson will be forfeited.

I acknowledge that I have received a copy of this contract at the time of execution and I UNDERSTAND THAT THIS COURSE OF ______ HOURS OF DANCING LESSONS EXPIRES ON ______________

Signed this ______ day of ______________, 19____.

ARTHUR MURRAY SCHOOL OF DANCING Pupil ______________

Verified by ______________ Registrar ______________

EXHIBIT 17-Q

NON CANCELLABLE CONTRACT

DEFERRED PAYMENT ENROLLMENT AGREEMENT AND CONTRACT WITH STUDENT FOR INSTRUCTION

I, ______________ of ______________ Phone No. ______________

Hours	Tuition

agree to take a course of (Hours / Tuition)

I agree to pay ______________ dollars at the time of signing this agreement, and I agree to pay the balance of the down payment as follows ______________

____

and the balance of ______________ Dollars in the manner set forth in "negotiable note given for tuition" numbered ______________ and executed at the time of signing this agreement.

The Arthur Murray School of Dancing agrees that it will give the above mentioned ______________ lessons within the period covered by this contract.

It is further agreed and understood that I shall not be relieved of my obligation to pay said tuition herein agreed upon and that no deduction allowance or refunds for any tuition paid and due under this agreement shall be made by reason of my absence or withdrawal. I UNDERSTAND THAT NO REFUNDS WILL BE MADE UNDER THE TERMS OF THIS CONTRACT.

It is further agreed that all lessons shall be arranged for a definite time, and that in the event I wish to cancel any appointment, I agree to notify the Arthur Murray School of Dancing at least 24 hours in advance of my appointment in order to make arrangements for taking the lesson at a later date, illness excepted. I understand that if I do not cancel my appointment 24 hours in advance as stated above, I shall be considered absent and the lesson will be forfeited.

I acknowledge that I have received a copy of this contract and a copy of the "negotiable note given for tuition" at the time of their execution.

I FURTHER UNDERSTAND THAT THE LESSONS CALLED FOR UNDER THIS CONTRACT ARE TO BE TAKEN BY ME PERSONALLY AND THAT THIS CONTRACT OR THE LESSONS CALLED FOR THEREIN CANNOT BE BY ME ASSIGNED. I UNDERSTAND THAT THIS COURSE OF ______ HOURS OF DANCING LESSONS EXPIRES ON ______________

Signed this ______ day of ______________ 19____

ARTHUR MURRAY SCHOOL OF DANCING
Execution and delivery of copy Pupil ______________

verified by ______________ Registrar ______________

NEGOTIABLE CONTRACT NOTE GIVEN FOR TUITION AND SCHOLARSHIP

EXHIBIT 18-R

DEFERRED PAYMENT EXTENSION AGREEMENT AND CONTRACT
WITH STUDENT FOR INSTRUCTION

I, ____________________________________ of ____________________________________

...reby agree to extend my co... of ____________ hours to ____________ hours and I further agree to

...y total tuition for said lessons in ... amount of $ ____________

...have paid $ ____________ on my original course.

... $ ____________ today and agree to pay the balance of the down payment as follows,

____

... and the remainder of $ ____________ dollars in the manner

... note given for tuition" numbered ____________ and executed at the time of

...

... School of Dancing agrees that ... will give the above mentioned ____________
... covered by this contract.

... understood that I shall not be relieved of my obligation to pay said tuition herein agreed ... or refunds for any tuition paid and due under this agreement shall be made by ... I UNDERSTAND THAT NO REFUNDS WILL BE MADE UNDER THE TERMS OF

... all lessons shall be arranged for ... time, and that in the event I wish to cancel any ... Arthur Murray School of Dancing at least ... hours in advance of my appointment is ... the lesson at a later date, ... accepted. I understand that if I do not ... advance as stated above, I shall ... absent and the lesson will be forfeited.

... received a copy of this contract and a copy of the "negotiable note given for tuition"

... THAT THE LESSONS CALLED FOR UNDER THIS CONTRACT ARE TO BE TAKEN BY ... THIS CONTRACT OR THE LESSONS CALLED FOR HEREIN CANNOT BE BY ME ... THAT THIS COURSE OF ____________ ... OF DANCING LESSONS

____

____________ day of ____________________________________

... SCHOOL OF DANCING

Pupil [redacted]

Registrar ____________

NON ASSIGNABLE - NON-CANCELLABLE CONTRACT

NEGOTIABLE CONTRACT & NOTE GIVEN FOR TUITION AND SCHOLARSHIP

EXHIBIT 19-S

55 [fol. 170] EXHIBIT 19-S

DEFERRED PAYMENT RENEWAL AGREEMENT AND CONTRACT
WITH STUDENT FOR INSTRUCTION

NEGOTIABLE CONTRACT NOTE GIVEN FOR
TUITION AND SCHOLARSHIP

I, ______________________ of ______________________

hereby enroll and agree to take a course of __________ lessons, and I further agree to pay tuition for said lessons in the amount of __________ Dollars.

I agree to pay __________ Dollars at the time of signing this agreement and I agree to pay the balance of the down payment as follows ______________________

____

and the balance of __________ Dollars in the manner set forth in "negotiable note given for tuition" numbered __________ and executed at the time of signing this agreement.

The Arthur Murray School of Dancing agrees that it will give the above mentioned __________ lessons within the period covered by this contract.

It is further agreed and understood that I shall not be relieved of my obligation to pay said tuition herein agreed upon, and that no deduction allowance or refunds for any tuition paid and due under this agreement shall be made by reason of my absence or withdrawal. I UNDERSTAND THAT NO REFUNDS WILL BE MADE UNDER THE TERMS OF THIS CONTRACT.

It is further agreed that all lessons shall be arranged for a definite time, and that in the event I wish to cancel any appointment, I agree to notify the Arthur Murray School of Dancing at least 24 hours in advance of my appointment in order to make arrangements for taking the lesson at a later date, proof of illness excepted. I understand that if I do not cancel my appointment 24 hours in advance as stated above, I shall be considered absent and the lesson will be forfeited.

I acknowledge that I have received a copy of this contract and a copy of the "negotiable note given for tuition" at the time of their execution.

I FURTHER UNDERSTAND THAT THE LESSONS CALLED FOR UNDER THIS CONTRACT ARE TO BE TAKEN BY ME PERSONALLY AND THAT THIS CONTRACT OR THE LESSONS CALLED FOR THEREIN CANNOT BE BY ME ASSIGNED. I UNDERSTAND THAT THIS COURSE OF __________ HOURS OF DANCING LESSONS EXPIRES ON __________

Signed this __________ day of __________ 19__

ARTHUR MURRAY SCHOOL OF DANCING

Execution and delivery of copy verified by __________

Pupil __________

Registrar __________

NON-ASSIGNABLE - NON-CANCELLABLE CONTRACT

EXHIBIT 20-T

ACME NO. 4

001

ORIGINAL

ARTHUR MURRAY STUDIO

724 Pierce, Sioux City, Ia, 8-3597
309 So. 19th Street, Omaha, Nebr., Jackson 2270
1238 M Street, Lincoln, Nebr., 2 5800
388-D W. 18th Street, Sioux Falls, South Dakota, 47795

No. of Hrs.
Amt. Sale
Down Payment
Bal. to finance

ALL QUESTIONS MUST BE ANSWERED
If words "No" or "None" apply, please so indicate

Name ______ Nationality ______ Age ______ Height ______ Weight ______ Married or Single ______
Home address, No. and Street ______ How long ______
If Rural address give the following information ______ Phone No. ______
______ miles ______ and ______ miles ______ of ______ State ______
Number Direction Number Direction City
Former address ______ How long ______
Business address ______ Phone No. ______
(No. Street or Building)
Name of employer ______ Occupation ______ How long ______
(If self, what business)
Salary ______ Other Income ______ Banks with ______
Real estate owned ______ Encumbered for ______
Father or Mother ______ Address ______
Wife's Father or Mother ______ Address ______
References
1 ______ Address ______
2 ______ Address ______
Date ______ 194 __ Applicant's signature ______

Please TYPEWRITE all papers and have them signed in INK

ALL QUESTIONS MUST BE ANSWERED

No. ______

$______

Omaha, Nebraska, ______, 19__

For value received, we jointly and severally promise to pay to the order of ______
(Dealer's Name)

as follows: ______ DOLLARS
(Total Amount of Note in Words)

Payable in ______ equal installments of $______ each and ______ installments
(No. of Even Payments) (No. of Uneven Payments, if Any)

$______ each. Payments due on ______ day of every ______ month, beginning ______ 19__
(Month)

until the principal sum with interest at the highest legal rate after maturity is paid at the office of the First National Bank of Omaha, Nebraska.

If any installment of this note is not paid when due at the place specified, the entire amount unpaid shall be due and payable forthwith at the election of the holder of the note. The failure to insist upon prompt payment of any installment or installments shall not be considered a waiver of the terms of the foregoing clause or the establishment of a custom to the contrary.

In the event of suit on this note, the maker agrees that a reasonable attorney's fee shall be taxed as part of the costs of suit.

If the purchaser is a married woman, she agrees that the execution of this note is with reference to her individual estate and upon the faith and credit thereof and with the intention to charge for the payment of the obligation, her separate property, whether now owned or hereafter acquired.

The undersigned acknowledge receipt of a copy of this note on the date hereof.

NEGOTIABLE INSTRUMENT.

Negotiable Note Given for Tuition

Salesman Sign as Witness ______

Witness ______

EXHIBIT 21-U

[fol. 113]

IN THE TAX COURT OF THE UNITED STATES

SUPPLEMENTAL STIPULATION OF FACTS IN DOCKET Nos. 62100, 63591, 63592, AND 63593—Filed April 8, 1958

At the trial of the above captioned case, the parties, through their respective counsel, agreed to stipulate the amount of tuition paid other Arthur Murray Dance Studios for giving lessons contracted to be given by the Arthur Murray Dance Studios operated by the petitioners.

It is hereby stipulated that the tuition paid to other studios during the taxable years ending March 31, 1950 to March 31, 1954, inclusive, is as follows:

Taxable year ended March 31, 1950	$ 592.00
Taxable year ended March 31, 1951	751.10
Taxable year ended March 31, 1952	825.00
Taxable year ended March 31, 1953	1,328.13
Taxable year ended March 31, 1954	4,955.32

Robert Ash, Attorney for Petitioners.

Arch M. Cantrall, Chief Counsel, Internal Revenue Service.

[fol. 114]

IN THE TAX COURT OF THE UNITED STATES

Docket No. 62109.
Docket No. 69591.
Docket No. 69592.
Docket No. 69593.

MARK E. SCHLUDE and MARZALIE SCHLUDE, MARK E. SCHLUDE, MARZALIE SCHLUDE, MARK E. SCHLUDE and MARZALIE SCHLUDE, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

North Courtroom,
U. S. Post Office Building,
Omaha, Nebraska.

March 24, 1958,
Monday, 10:50 a. m.

Met Pursuant to Notice.

Before: Honorable Eugene Black, Judge.

Appearances: Carl F. Bauersfeld, Attorney at Law, ... Eye Street, Northwest, Washington 6, D. C., and ... Viren, Attorney at Law, 904 City National Bank Building, Omaha, Nebraska, appearing on behalf of Mark E. Schlude and Marzalie Schlude, petitioners.

William E. McCormick, Special Attorney, Omaha Region, Internal Revenue Service, Omaha, Nebraska (Honorable John Potts Barnes, Chief Counsel, Internal Revenue Service), appearing on behalf of Commissioner of Internal Revenue, respondent.

Transcript of Proceedings

[fol. 115] The Clerk: Docket No. 62109, Mark E. Schlude and Marzalie Schlude; Docket No. 69591, Mark E. Schlude

Docket No. 69592, Marzalie Schlude; and Docket No. 69593, Mark E. Schlude and Marzalie Schlude. Will counsel state their appearances. For the petitioners?

Mr. Bauersfeld: Carl F. Bauersfeld and Einar Viren for petitioners.

The Clerk: For the respondent?

Mr. McCormick: William E. McCormick for the respondent.

The Court: Now, petitioners' counsel, are you ready at this time?

Mr. Bauersfeld: We are ready.

Motion to Consolidate Granted

The Court: Have these cases been consolidated?

Mr. Bauersfeld: There is a motion pending before the Court at this time.

The Court: To consolidate them?

Mr. Bauersfeld: Yes, Your Honor, a written motion.

The Court: The motion to consolidate is granted and petitioners' counsel may make his opening statement at this time.

Opening Statement on Behalf of the Petitioners

By Mr. Bauersfeld:

Mr. Bauersfeld: May it please the Court. These cases have been consolidated for trial and involve deficiencies in income tax as follows; In Docket No. 62109, the petitioners are Mark E. Schlude and Marzalie Schlude, involving the year 1950, and the amount of the deficiency is \$15,819.14; in Docket No. 69591, the petitioner is Mark E. Schlude, the year involved is 1952, and the amount of the deficiency is \$9,264.69; in Docket No. 69592, the petitioner is Marzalie Schlude, the year involved is 1952, and the amount of the deficiency is \$8,971.55; in Docket No. 69593, the petitioners are Mark E. Schlude and Marzalie Schlude, [fol. 116] the years involved are 1953 and 1954, and the amount of the deficiency is \$83,395.82 for the year 1953 and \$11,544.32 for the year 1954.

The case presents two issues. There are a number of other issues in adjustments in the notices of deficiency,

They are all minor and petitioners have not made an assignment of error regarding these and is not pressing them.

The two issues pressed here are these:

Petitioners Mark E. Schlude and Marzalie Schlude as partners operate the local Arthur Murray Dance Studios in Nebraska and Omaha and surrounding territory. The partnership keeps its books on the accrual method of accounting. It enters into contracts with students and treats prepaid tuition fees as deferred income. It reports as income each year that portion of the fees which represents lessons taught or cancelled during the year. In other words, the partnership reports the income it received from the dancing business when it was earned. The respondent determined the partnership must report as income the amount agreed to be paid by the student in the contract for dancing instruction. In other words, it is respondent's position that the mere execution of a contract for dancing instruction results in the recognition of the entire amount as income at the time the contract is executed. The question for decision is: Have the taxpayers reported their "true" income.

For the year 1950, there is one other issue which involves the statute of limitations. The determination of a deficiency for the year 1950 was made more than three years from date of filing petitioners' return for 1950 but less than five years. The question presented is: Does the statute of limitations bar the alleged deficiency for 1950?

The facts in a little more detail are these. On June 18, 1946, Mark E. and Marzalie Schlude formed a partnership for the purpose of conducting Arthur Murray Dance Studios in territories authorized by various franchise agreements received from Arthur Murray, Inc., New York, New York. The first studio was opened in Omaha, Nebraska, and subsequently during the years here involved, dance studios were opened in Lincoln, Nebraska; Sioux City, Iowa; Sioux Falls, South Dakota; and Grand Island, Nebraska.

[fol. 117] From the inception of the business, the partnership has maintained its books of account on a fiscal year ending March 31, and has used the accrual method of ac-

counting. The partners report their income on a calendar year basis.

The partnership, Arthur Murray Dance Studios, contracts with students to give them a course of dance instruction. Some of the contracts extend beyond the end of the taxable year in which the contract was made. Students paid the partnership either in cash or by cash and deferred payment. When the deferred payment plan was used, the partnership received a note from the student which it transferred to a bank with full recourse. The bank would pay the partnership approximately 50 per cent of the face of the note and hold the balance until the student liquidated the note in its entirety.

The dance courses sold are primarily for private instruction of a specific number of hours or lessons. The partnership maintains a complete double-entry set of books and records including an individual record card for each student.

At the end of each fiscal year, an audit is conducted by a Certified Public Accountant and a complete analysis of each course sold is prepared. This analysis reflects among other things the gain or loss resulting from the cancellations, the amount of untaught hours and applicable deferred income at the end of the year. The earned income account is adjusted to the audit report as is the deferred income at the end of the year and the cancellations during the year. Each course having a beginning balance or sold during the year is completely accounted for and audited.

At various times during the year, the partnership is required to decrease the amount of some of the courses sold and re-write the contracts for smaller amounts. On other occasions it becomes necessary for the partnership to cancel the contract because of lack of student activity. If refunds of cash received are made, they are charged to deferred income and the unpaid balance of the contract is charged against the deferred income. Gain on cancellation of contracts is taken into account each year represented by the difference between payments received by the [fol. 118] partnership and income earned to the date of cancellation.

To give a course of instruction, it cost the partnership during the years here involved between approximately $7.00 and $8.50 per hour. The advance payments received for a course of dance instruction must be used to defray the operating costs and expenses applicable to the course of instruction for which the payment was received. The amount of profit involved in an advance payment for dance instruction is undeterminable until subsequent events indicate the amount of the operating cost and expense applicable thereto.

In the case at bar, the Commissioner has treated as income the yearly increases in deferred income on the books of the partnership. The effect of the Commissioner's action is to require the partnership to report as income the amount set forth in the contract with the student at the date it is executed.

It is the taxpayers' position that this case does not fall within the "claim of right" doctrine because that doctrine is applicable to cases dealing with the question of whether an item is or is not income. The question here involved is not whether the item is income but when the income shall be taken into account. In addition, the petitioners say that the "claim of right" doctrine can have no application in the instant case because it applies only when the actual cash money is received. Here the partnership did not receive all cash—although some cash was received. The "claim of right" doctrine has never been stretched to apply to a situation where the taxpayer did not actually receive cash money, as in this instance. It is further taxpayers' position that the partnership has reported its true income and that the method of accounting employed consistently and properly reflects its true income and is the only practical business way of keeping its books and reporting its income. The accounting method employed reflects the consistent application of generally accepted accounting principles and that the petitioners have reported their "true" income.

The Court: All right, Mr. McCormick, you may make your statement.

[fol. 119]

Opening Statement on Behalf of the Respondent

By Mr. McCormick:

Mr. McCormick: Summarizing the deficiencies, the respondent has determined the deficiencies were in income tax for the years 1950, 1952 and 1953 and 1954, in the total amount of $128,965.52. Petitioners are equal partners in the Arthur Murray Dance Studio which has its principal place of business here in Omaha and the deficiencies here resulted mainly from the respondent increasing partnership income and consequently the amount of the partners' distributive shares.

The partnership contracted with students to give dancing lessons, the lessons to be paid for by three methods: (1) cash payments to the studio; (2) deferred payments to the studio; and (3) the giving of a negotiable note to the studio.

The studio discounted the notes with a bank, the bank giving the partnership 50 percent of the discounted proceeds and holding the other 50 percent in a reserve account until the notes were fully paid. The cash payments received directly from the students, the amount received at the time notes were negotiated to the bank, and the amounts in the reserve fund after notes were fully paid were either deposited or credited to the partnership general bank account without restriction as to use.

During the years involved here the partnership, which used the accrual method of accounting, deferred from inclusion in income on its books and returns amount of the contract prices allegedly representing uninstructed hours of dancing lessons.

The respondent acting under the authority of Section 41 of the Internal Revenue Code of 1939 determined that the method of accounting employed by the partnership did not correctly reflect income and accordingly increased partnership income by the amount of the increases in the deferred income account from year to year. The petitioners dispute the correctness of this change and thus the primary issue is whether partnership income and consequently distributive shares should be increased by the amount of the increases

in the year and the balances shown in the partnership deferred income account. As already pointed out, this deferred income included prepaid receipts and accounts and notes receivable.

[fol. 120] Since the evidence will show that the prepaid receipts were without restriction as to use (except for the bank reserve fund) respondent contends that such amounts should be reported as income in the year of receipt. Respondent further contends that the amounts of deferred income representing accounts and notes receivable are properly income to an accrual-basis taxpayer for the period in which they arise.

One other issue for the year 1950 relates to whether the statute of limitations for assessment expired prior to the mailing of the notice of deficiency. Since the evidence will show that petitioners omitted from their gross income for the taxable year an amount properly includable therein in excess of 25 percent of the gross income stated in the return filed, respondent contends that under Section 275 (c) of the Internal Revenue Code of 1939 the determination of a deficiency is not barred.

At this time I'd like to offer for filing with the Court a stipulation of facts with attached exhibits.

The Court: All right, the stipulation of facts, together with exhibits attached thereto, is received in evidence.

Mr. McCormick: The exhibits, Your Honor, are Nos. 1-A through 21-U.

The Court: All right. Mr. Bauersfeld, you may present your oral testimony.

Mr. Bauersfeld: Thank you, Your Honor. I will call Mr. Davis.

Whereupon,

Robert J. Davis, called as a witness for and on behalf of the Petitioners, having been first duly sworn, was examined and testified as follows:

Direct examination:

The Clerk: Would you be seated and state your name and address, please.

The Witness: Robert M. Davis, 1111 City National Bank Building, Omaha, Nebraska.

The Clerk: Thank you.

[fol. 421] By Mr. Bauersfeld:

Q. What is your profession, Mr. Davis?

A. Public accounting.

Q. And how long have you been engaged in public accounting?

A. About 13 years.

Q. Are you a Certified Public Accountant?

A. Yes, sir, since 1948.

Q. And where is your business located?

A. Omaha, Nebraska, and surrounding territory.

Q. Have you ever taught accounting?

A. Yes, sir, at Boyles Business College for about three years.

Q. Do you belong to any professional societies?

A. Yes, sir, Nebraska Association of Certified Public Accountants.

Q. Do you know the petitioners, Mark E. Schlude and Marzalie Schlude?

A. Yes, sir.

Q. How long have you known them?

A. Since about 1946.

Q. How did you come to meet them?

A. When I was associated with Irwin-Imig Company, Certified Public Accountants, I was delegated to design and install the books of account for Mr. and Mrs. Schlude.

Q. What was the name of the company?

A. Irwin-Imig Company.

Q. Would you spell that?

A. I-r-w-i-n - I-m-i-g.

Q. What business were Mr. and Mrs. Schlude in?

Q. They had just received their franchise from Arthur Murray of New York to operate an Arthur Murray Dance Studio; at that time they came to have their records properly designed and installed.

Q. Will you describe the nature of the business?

A. The nature of the business is the operation of sell

ing and teaching dance lessons in accordance with methods prescribed by Arthur Murray.

Q. I hand you exhibits Nos. 15-O to 20-T of the stipulation of facts, which are contracts that are entered into by the Arthur Murray Dance Studios with students and ask you to explain when each of these contracts is used.

A. There are basically two types of contracts entered into between the partnership and students, the cash plan of selling dance courses and the deferred-payment plan of selling of dance courses. The exhibit marked No. 15-O (fol. 122) refers to a cash course on an original course of dance instruction. The exhibit marked No. 16-P refers to a course on the extended plan of selling dance lessons. Exhibit No. 17-Q refers to a renewal course sold on the cash plan. Exhibit No. 18-R refers to a deferred payment renewal agreement on the original sale of dance lessons and exhibit No. 19-S refers to a deferred payment extension course and exhibit No. 20-T refers to a deferred payment renewal course.

Q. What is the difference between an original course, an extension course, and a renewal course?

A. An original course, as the name implies, is the first course of dance instructions sold to a student. The extension course is an extension privilege that is given to a student providing an extension of his course prior to the fifth hour of instruction on the original course. If the student extends his course prior to the fifth hour on the original course, he gets the privilege of enlarging his course on a lesser rate. The renewal course is the repeat sale to a student originally enrolled under the original agreement.

Q. I hand you exhibit No. 21-U, which is attached to the stipulation of facts, and ask you what the partnership does with notes of this type when received from students?

A. These notes are transferred to the bank after having been properly filled out.

Q. And at that time, what occurs?

A. After the bank deducts its interest charge from the face amount of the note, 50 percent of that balance is transmitted to the Studio and 50 percent is held back in reserve by the bank and not made available for withdrawal

by the Studio. The note is transferred with recourse to the bank. At the time these notes were first put into effect with that bank the Studio actually entered into an arrangement with the bank where the Cashier's Check would be made out for the entire amount of the note made payable to the Studio and student and the student had to endorse that check before the Studio could deposit that to the Bank account. The whole purpose of that was that rather than a sale, this transaction took the form of a sale but actually it was a collection procedure. The whole purpose of transferring these notes to the bank [fol. 123] was that psychologically they believed the student would be more likely to pay the bank than the Studio. The bank makes no credit investigation insofar as the student's ability to repay. The notes are transferred to the bank with complete recourse against the Studio."

Mr. Bauersfeld: At this time, if the Court please, I'd like to offer in evidence as petitioners' exhibit No. 22-A, a photostatic copy of the franchise agreement dated June 18, 1946, between Arthur Murray, Inc., and Mark E. Schlude and Marzalie Schlude. I understand there is no objection.

Mr. McCormick: No objection.

The Court: Well, if it's not a joint exhibit, it will be Petitioner's Exhibit No. 22. It will be received.

Mr. Bauersfeld: Yes.

(The agreement referred to was marked and received in evidence as Petitioner's Exhibit No. 22.)

PETITIONER'S EXHIBIT 22

Agreement made in New York, N. Y., as of the 18 day of June, 1946, between Arthur Murray, Inc., of 11 East 43rd Street, New York City, hereinafter referred to as "Licensor", and Mark E. Stevens and Marzalie Stevens, hereinafter referred to as "Licensee"

Witnesseth:

Whereas, Licensor and its predecessors have for many years been engaged in conducting and supervising dancing schools and have developed unique and successful ways

of teaching dancing and conducting such schools and ... supervise nationally known dancing schools of the [illegible] reputation and excellence, with studios in the City of New York and elsewhere known as "Arthur Murray's," "Arthur Murray's Studio," "Arthur Murray School of Dancing" and or otherwise, and

Whereas, the Licensee is desirous of personally conducting a dancing school in the City of Omaha, State of Nebraska, and it is desirous of using the "Arthur Murray Method" and the name "Arthur Murray" in connection therewith;

[fol. 124] Now, Therefore, in consideration of the premises and for other good and valuable considerations, the receipt of which is hereby mutually acknowledged, and in further consideration of the mutual promises of the parties hereto, it is agreed as follows:

1. The Licensor hereby grants a license to the Licensee to use the "Arthur Murray Method" and name in connection with a dancing school or schools to be conducted by Licensee, in the City of Omaha, at such place or places within said City as shall be approved by Licensor in writing. The terms school, studio or dancing school, as herein used, includes any branch or branches thereof, or any studio or studios operated or managed by Licensee. The Licensee shall reside in said City or its suburbs and agrees to devote his full time, and attention, and best efforts exclusively to the conduct of the said dancing school or schools under the name "Arthur Murray Dance Studio of Omaha," and agrees to register or file statements of the use of such name in the proper office of any County in which such dancing school, or studio, or any branch thereof may be located, and in any other Governmental office where it is mandatory or permissive that such a statement be filed, and agrees within twenty (20) days after the execution of this agreement, or within twenty (20) days after the filing of such a statement is permitted by the laws of the State, Territory and Municipality in which this license is effective to furnish Licensor with proof, satisfactory to Licensor, that such statements have been duly filed.

2. The Licensee agrees to pay the Licensor as long as Licensee conducts a dancing school as aforesaid under said name, or any similar name in weekly payments on Friday of each week, ten (10%) per centum of the gross receipts of such dancing school, or schools, so maintained by the Licensee for the preceding calendar week for which Licensor agrees to advise Licensee with respect to the establishment and necessary for the proper conduct of said dancing school and will furnish the Licensee with its latest and most available data and information concerning the methods of teaching dancing in accordance with the Arthur Murray Method; and Licensee agrees to conduct the said schools in accordance therewith.

[fol. 125] Licensor will furnish Licensee with copies of promotion material and publicity originated and used by the Licensor in connection with the schools operated by the Licensor together with cuts of art work and circulars and other material originated and used by the Licensor, which said material will be furnished to Licensee at cost. Such cost is to be remitted by Licensee to Licensor on demand.

3. The parties hereto agree that it is of the utmost importance to the success of the Arthur Murray System and to all persons operating dancing schools under franchise from the Licensor, and to pupils enrolled at all Arthur Murray Dancing Studios or Schools that steps, methods of instruction and tuition rates be uniform at all Arthur Murray studios. Licensee agrees to establish and maintain the minimum hourly tuition rates established and promulgated by the Licensor; and to conduct the studio, or studios, to be maintained and managed by Licensee in accordance with the general policies of the Licensor as established from time to time, and to see to it that the methods of teaching and the steps taught are in accordance with the latest methods and steps promulgated by Licensor from time to time. Licensor will at such times and as often as Licensor finds it necessary, inform Licensee of such policies, steps, methods and rates. Failure of the Licensee after being informed of such policies, methods or rates to maintain such policies, methods or rates shall be sufficient cause for cancellation of this license by the Licensor.

4. The Licensee agrees to honor the unused portion of paid courses of lessons of dancing pupils enrolled in any other Arthur Murray Dancing School owned or licensed by the Licensor, by giving dancing instructions to said pupils, and the Licensee shall be entitled to receive therefor the sum of $1.50 per hour for each hour of dancing instruction so given by the Licensee on account of said unused lessons, and this payment shall be made by the Arthur Murray Dancing School which originally enrolled said dancing pupil or, at the option of the Licensor, by the Licensor. Licensee, however, need not honor the unused portion of paid courses where the school which enrolled said pupil is then thirty (30) days or more in arrears in making payments for lessons given on its behalf.

[fol. 126] 5. The Licensor agrees that Licensor will likewise honor, or use Licensor's best efforts to cause to be honored, in any other Arthur Murray Dancing School unused courses of lessons of any dancing pupil, who may subscribe and pay for same in the Licensee's said dance school, and Licensee agrees to pay the sum of $1.50 per hour for each hour of dance instruction given by the Licensor or such other Arthur Murray Dancing School, promptly upon being apprised of the amount due.

6. In order to protect and indemnify the Licensor from any and all claims (of whatsoever nature) which may be made or arise against Licensor as a result of the granting of this license to Licensee, and or the expense of litigation, and to provide a fund out of which refunds may be made for unused lessons, payment for which has theretofore been made to the Licensee by Licensee's pupils, or, to reimburse Licensor or Licensor's other Licensee for redeeming same, the Licensee shall on Friday of each week, transmit to Licensor five per centum (5%) of Licensee's gross receipts for the preceding calendar week (in addition to the other payments herein specified to be made by Licensee) to be held by Licensor in escrow, as hereinafter set forth. Said fund may be held by Licensor on deposit in any bank in the City of New York selected by Licensor but separate and apart from other monies of Licensor or may be invested by Licensor in any type of bond, note or other certificate

of indebtedness issued by the United States Government. Licensee shall be credited periodically with such proportionate part of the income of such investments as Licensor shall determine should be properly allocated to Licensee. Licensor shall not be liable for any error of judgment or discretion or for anything other than bad faith or fraud in the handling of said fund or funds. ~~Such payments shall continue for the six (6) operating years next following the date hereof. Thereafter no further payments need be made to Licensor's Escrow Fund unless said fund is depleted by payments therefrom, in which case payments shall be continued or resumed by Licensee until said Fund amounts to the aforesaid percentage of Licensee's gross receipts for the six (6) operating years next following the date of this agreement.~~ Upon termination of this agreement (or any renewal or extension hereof) or the termination of the relationship contemplated hereby, between (fol. 127) Licensor and Licensee (or their respective assigns) or in the event that Licensee's school shall be permanently discontinued, Licensor shall account to Licensee within fourteen (14) months after the happening of either of such events for the fund remaining in Licensor's hands, if any, and shall pay to Licensee the amount remaining on hand after deducting: (1) all debts and obligations due Licensor; (2) all sums due Licensor's other Licensees for redemption of lessons sold by Licensee to Licensee's pupils; (3) any payments Licensor may have made or expenses or liability incurred as a result of claims or litigations against Licensor arising out of Licensee's conduct of the enterprise contemplated hereby and (4) two dollars per hour for all lessons for which Licensee has been paid but which are still unused, which amount shall be retained by and become the property of Licensor, subject, however, to the liability of Licensor to account to holders of unused lessons sold by Licensee, to the extent of the amount retained by Licensor under provision (4) hereof. Licensor is authorized to adjust and pay any such claims or settle any such litigation on such terms as Licensor deems advisable. Final payments to Licensee and periodic accountings shall be made by Licensor upon certification of Licensor's Certified Public Accountants, the expense of which certification, if any, shall

be charged to the funds belonging to Licensee and not by the Licensor.

See Attached Rider.

7. The Licensor and Licensee agree that it is essential to the success of the contemplated enterprise and the reputation of the Licensor, to maintain the highest possible standard of instruction and the highest standard of behavior among the personnel employed by Licensee. The Licensee therefore agrees that the names, photographs, qualifications and references of all dancing instructors, interviewers, supervisors and other employees to be employed by the Licensee shall be submitted to the Licensor for Licensor's approval prior to employment; and such applicants must pass, to the Licensor's reasonable satisfaction, examinations in writing prepared by the Licensor and given under Licensor's supervision or direction prior to being employed by Licensee. The Licensee agrees to institute and maintain all rules of behavior and regulations [fol. 128] pertaining thereto, which are or may be established by Licensor, from time to time at the New York studio owned or supervised by Licensor. Any instructors, interviewers, supervisors or other employee hired and subsequently with or without cause, found objectionable by the Licensor, shall be dismissed forthwith at the request of the Licensor. The Licensee agrees that failure on his part to maintain adherence of his employees to the rules of behavior and the standard of instruction established by the Licensor or the failure of Licensee, in the judgment of the Licensor, to maintain Licensee's school on a level with the high character and excellence of the New York studio owned or supervised by the Licensor or should the Licensee commit, allow or countenance illegal, immoral or questionable conduct on his own or on the part of any of his teachers or employees or should, in the opinion of Licensor, the reputation of the Licensee's studio be impugned, sufficient cause shall be deemed to exist to justify immediate cancellation of this license. The salaries and expenses of all dancing instructors and other employees hired, employed and engaged by the Licensee shall be borne by Licensee and not by the Licensor. Licensee agrees to require all employees

as a prerequisite to their employment to sign an employment contract, in the form prescribed by Licensor, which shall be uniform for all Licensee's hereafter licensed and shall be in the form used by the New York Studio, giving to Licensor, amongst other things, the right to enforce the covenants thereof on the part of the employee to be performed at the reasonable expense of Licensee, if Licensee fails to do so to Licensor's reasonable satisfaction.

The Licensee specifically agrees: (a) that he will not employ any dancing instructor, interviewer, supervisor or other employee without first obtaining the written consent of the Licensor; (b) that he will not employ any dancing instructor, interviewer or supervisor who is under the age of twenty-one years, and that, upon the Licensor's request, he will furnish the Licensor with legal proof of age of any dancing instructor, interviewer or supervisor; (c) that he will not employ any dancing instructor unless such instructor has had at least one hundred hours of private instruction in dancing at an Arthur Murray Dancing School, or has (fol. 128) attended a Teacher's Training Class at an Arthur Murray Dance Studio for at least two hundred [illegible] hours; (d) that he will maintain approximately the same rates of pay for his dancing instructors, interviewers and supervisors as is maintained at the New York Studio owned or supervised by Licensor, taking into consideration any special local conditions that may exist, if any. The Licensee further agrees that he will at all time require the instructors and supervisors employed by him to have a complete knowledge of all the latest Arthur Murray dance steps and Arthur Murray methods of teaching such steps and agrees that he will require his instructors and supervisors to attend classes in the latest Arthur Murray dance steps and Arthur Murray teaching methods, when and as the Licensor sends its representatives to the Licensee's place of business in order to teach the latest Arthur Murray steps and Arthur Murray methods of instruction to the Licensee and its instructors and supervisors. The Licensee agrees to reimburse the Licensor to the extent of not more than [illegible] in any calendar year for the cost of sending its representatives to the Licensee's studio.

Licensee further agrees, at Licensee's expense, to ... or to send the individual charged with the training ... supervision of licensee's instructors to New York ... attend a seminar to be conducted by Licensor in the ... Arthur Murray dance steps and Arthur Murray teach... methods when notified by Licensor of the holding ... seminar, at least once in each calendar year for at ... one week. Licensor will give not less than three ... notice of such seminars.

8. The Licensee agrees that all advertising to be ... by him in newspapers, on signs, on the radio, and ... printed matter, shall first be submitted to the Licensor ... Licensor's written approval before being used. Licensor agrees to approve or disapprove any such advertis... within two weeks after receipt of copy or script by Licensor. The Licensee may advertise in any paper publish... in or over any radio station broadcasting from the trading area in which the Licensee is licensed to do business unless and until such advertising conflicts with the advertising of another Arthur Murray Licensee (of which fact Licensor [fol. 130] shall be sole judge and arbitrator as to whether any such conflict actually exists) in which case Licensee shall desist forthwith from advertising in any newspaper or over any radio station when so directed in writing by the Licensor unless and until arrangements shall have been made, satisfactory to such Licensee and Licensor, to co-ordinate the conflicting advertising.

The Licensee when and if called upon to do so, agrees to pay his proportionate share of the cost of national advertising of the Licensor during the term of this agreement. By "national advertising" is meant advertising appearing in printed publications, on the radio, or through any other medium which is generally directed to the population of the nation rather than to some particular locality. By "proportionate share of the cost" is meant the share allocable to the Licensee according to the ratio of the population of the territory in which this license is effective to the population of all licensed territory in the continental United States (including territory serviced by Licensor directly) based upon latest available population stat...

Any allocation of costs certified to by the Certified Public Accountant employed by the Licensor for such purpose shall be final and binding on the parties hereto but shall not exceed 2% of the annual gross receipts of the Licensee for the previous calendar year.

Should the gross income of Licensee for the first operating year of this contract be less than $25,000.00 or should the gross income of the Licensee for any consecutive three months, after the end of the first operating year of this contract, be less than 90% of the gross income of the corresponding consecutive three months of the preceding year, the Licensor, at Licensor's option, shall have the right to direct the advertising of the Licensee for as long as Licensor deems such direction advisable or necessary, it being understood, however, that all expense of this advertising shall be borne and paid for by the Licensee and not by the Licensor but shall not exceed 15% of current gross monthly receipts of Licensee, it being agreed that as soon as the current gross monthly receipts again equal or exceed 90% or more of the gross receipts of the corresponding consecutive three months of the preceding year, fol. 136 Licensor will, upon request made to Licensor by Licensee, relinquish control of said advertising unless and until the gross receipts again diminish as aforesaid.

9. Upon licensor's request, licensee agrees to use in his advertising, appointment cards, receipts, etc., wherever the name "Arthur Murray" appears, the following phrase:

"Arthur Murray Dance Studio
Mark & Marzalie Stevens, Licensee."

10. The Licensee agrees that he shall solely be responsible for all the expenses of the aforesaid dancing school and for taxes and levies of any and all kinds in connection with said school and the income arising therefrom, and that the Licensor shall not be liable for any such expenses, taxes or levies or disbursements otherwise paid or incurred in connection with the establishment and maintenance of the aforesaid dancing school, and the Licensee agrees to indemnify and hold the Licensor harmless from any and all claims, lawsuits, demands and other causes of action that

may arise or be asserted against the Licensor by reason of the establishment and maintenance of the aforesaid school or by reason of Licensee's use of the name "Arthur Murray" and all counsel fees and expenses in defending the same, and it is understood and agreed that in granting this license the Licensor does not authorize or empower the Licensee to use the name "Arthur Murray" in any other capacity than as provided herein, or to sign the name "Arthur Murray" to any contracts, documents, bills, notes, checks, drafts, leases, bonds, mortgages, bills of sale, or any other instrument in writing, or to hold himself out as a general or special agent, officer, director or partner of the Licensor, and the Licensee agrees that all contracts which he may enter into in the establishment and maintenance of said school shall be in his own name and not in the name of Arthur Murray. The Licensee, however, may state that he is doing business as such Licensee under the trade name and style of "Arthur Murray Dance Studio" during the pendency of this agreement. In addition to any other remedy, the Licensor may indemnify itself out of the Fund set up in paragraph 6 of this agreement from any and all claims, law suits, demands and any other causes of action and the cost and expense of defend- [fol. 132] ing the same, as hereinbefore set forth. Counsel fees charged to Licensee shall be reasonable.

11. The Licensee agrees to obtain the Licensor's written approval of the location, layout and decoration of any school or studio to be operated by the Licensee hereunder prior to the beginning of operation therein. The Licensee agrees that it is in the mutual interest of Licensee and Licensor that the furniture, furnishings, and decorations of the Licensee's studios shall be in good taste, of high quality and character and that studios throughout the country shall be as nearly uniform in appearance as is practical and, accordingly, Licensee agrees that he will decorate and maintain his studio in accordance with the Licensor's directions. In the event that at any time the said furniture, furnishings and decorations of Licensee's studio or studios do not meet with the Licensor's approval, or that the Licensee fails to decorate and maintain his studios in accord

ance with the Licensor's directions. Licensor shall notify Licensee of such determination and Licensee shall have 90 days in which to redecorate in accordance with the Licensor's recommendations. If Licensor's recommendations are not complied with in said period, or if Licensee by the end of said period shall not have progressed sufficiently with such redecoration to demonstrate to Licensor that the Licensee is proceeding with such redecoration in good faith and as expeditiously as possible, the Licensee hereby authorizes the Licensor to employ an interior decorator to decorate or redecorate the said studios and agrees to pay the reasonable cost of furniture, furnishings and decorations chosen by said interior decorator plus the fees of such decorator. Licensor agrees, however, that Licensee will not be called upon to expend in excess of 5% of Licensee's gross receipts for the twelve months next preceding the commencement of such redecoration without Licensee's prior written consent. The Licensee further agrees that he will install when and where practical and maintain in good order a music system of high quality and character, and shall make such changes in his music system and in the kind and type of music played in his studios, as the Licensor from time to time may direct.

12. The Licensee agrees that he will make refunds to his pupils of unused lessons, at the request of any pupils for a refund when and if a refund is justified.

fol. 133 In the event that the Licensee fails to make such justifiable refund to any of his pupils, the Licensor, if convinced that such refund is justified, is authorized to make such reasonable refund as Licensor deems proper, and charge the amount so paid to the Licensee, and Licensee agrees to reimburse Licensor upon demand or Licensor may charge such payment against the deposits provided for in Paragraph 6. Licensor agrees to endeavor to keep such refunds to a minimum.

13. The Licensee shall keep true and correct books of account, employing such bookkeeping and reporting system as Licensor may from time to time direct. Among other things, there shall be entered and recorded therein the name and address of each and every dancing pupil en-

rolled in the Licensee's school, together with a statement as to the amount paid to the Licensee for dancing lessons and the number of lessons subscribed for, given and unused. The books of account of Licensee shall be open to the examination and inspection of the Licensor or Licensor's duly authorized agent during all business hours of the day. Duplicates of Social Security reports, State unemployment reports, State and Federal tax returns and any other records or accounts shall be furnished the Licensor upon written request. The Licensee shall pay the entire cost of establishing, maintaining and auditing its books and records, as required hereunder.

14. The Licensee shall mail to the Licensor at Licensor's address in New York on Friday of each week: (1) a full and accurate statement showing the gross receipts received by the Licensee during the preceding calendar week; (2) the names and addresses of dancing pupils enrolled during said preceding week, with complete details of their enrollment, and the amounts paid to the Licensee by dancing pupils for lessons during that week together with the names of all pupils taking lessons during said week and the number of lessons taken by each such pupil (unless such information is shown in other records required to be furnished to Licensor by Licensee); (3) duplicates of all entries made by Licensee in his books of account; (4) teacher's original time slips; (5) duplicate original slips of payments by pupils; (6) original appointment sheets and such other forms or reports as Licensor may [fol. 134] from time to time require. Said documents shall be accompanied by Licensee's check in payment of the per centum of the Licensee's aforesaid weekly gross receipts as herein set forth.

15. The Licensee shall not at any time directly or indirectly furnish any information as to the methods of operation, interviewing, teaching, advertising, publicity, promotion ideas, or any other information relative to the Licensee's dancing school, or any dancing school licensed, owned or managed by the Licensor, to anyone except the Licensor. The Licensee may, however, discuss general problems of method and management with other managers

of Arthur Murray Dancing Schools for the Licensees operating same) but nothing hereinbefore contained shall be construed to sanction the Licensee's discussion with or divulging to another person or Licensee of any information or method or advertisement or suggestion made available by the Licensor only to such of the Licensees as have shared or have agreed to share the expense of preparing or obtaining such information, method, advertisement or suggestion or which the Licensor may designate as for the exclusive information or guidance of the Licensee.

The Licensee shall not at any time directly or indirectly furnish or divulge to anyone, except the Licensor, the names of the dancing pupils enrolled in his aforesaid dancing school, nor shall he solicit their patronage for his own, or for the use of any other dancing school at any time during a period of three years after the termination of this agreement.

The Licensee shall not have any interest, financial or otherwise, in any dancing school, studio, or dance hall in any part of the United States, other than as a Licensee hereunder or in territory for which he has a license in effect from the Licensor, during the term hereof.

16. In addition to any specific rights of cancellation contained in this agreement, upon the failure of the Licensee to comply with any and all terms and conditions of this agreement, or should the Licensee for any reason whatsoever not conduct or be unable to conduct said dancing school personally and give full time and personal attention [fol. 135] to the same for any period aggregating four months or should the Licensee, in the opinion of Licensor, neglect said dancing school the Licensor shall have the right, upon thirty days written notice, mailed to the Licensee at his address hereinabove set forth, to terminate this agreement and thirty days from the date that such notice is so mailed this agreement shall terminate and come to an end. If Licensee's failure to give full time and personal attention to said dancing school or schools is caused by bona fide illness or physical disability, said default may be cured provided and if Licensee prior to the expiration of said thirty days shall have employed a man-

ager approved in writing by Licensee, to take full and personal charge of said studio or studios.

17. The Licensee agrees that Licensee will use and advertise the name "Arthur Murray" or "Arthur Murray Dancing School" only within the territory in which he is licensed to operate and only in conjunction with the dancing schools operated by him within that territory and only in accordance with this contract and that at the termination of this agreement, he will not use the name "Arthur Murray" nor will he advertise or hold himself out in connection with any other dancing school, or while engaged in the teaching of dancing, as having formerly been connected with Arthur Murray or with an Arthur Murray Dancing School, and the Licensee further agrees that he will not, for a period of one year, following the termination of this agreement, engage directly or indirectly in his own behalf or that of any other person, firm or corporation in the City of New York or any county adjoining the County of New York or within the territory in which the Licensee is hereby licensed to use the name "Arthur Murray" or the Arthur Murray Method or within a radius of twenty-five miles of any Arthur Murray dance studio, wherever the same may be located, in teaching dancing to or soliciting the patronage of any persons who were at any time, or are, pupils of the Licensor, or the Licensee, or in teaching dancing to any other persons. The Licensee admits that the Arthur Murray Method is a unique and special method of conducting a dancing school and teaching social dancing devised and developed over the course of years by Arthur Murray. The Licensee further agrees that any and all con- [fol. 136] tracts made between him and his dancing instructors will be in writing and will provide that he will receive from each dancing instructor notes in payment for training and agreements similar to those signed by employees of the New York Studio or Studios and such agreements shall state that upon the termination of the contract of employment between said dancing instructor and the Licensee, said dancing instructor, while engaged in the teaching of dancing, or while connected with any other dancing school, will not advertise or hold himself or herself out as having been formerly connected with Arthur Murray or with any

Arthur Murray Dancing School, and also, an agreement in writing to the effect that upon the termination of the contract of employment between the said dancing instructor and Licensee, the said dancing instructor will not, for a period of one year following the termination of his or her employment, engage directly or indirectly in his or her own behalf, or that of any person, firm or corporation in the City of New York, or any county adjoining the County of New York, or within the territory in which the Licensee is hereby licensed to use the name "Arthur Murray" or the Arthur Murray Method or within a radius of twenty-five miles of such territory, or within a radius of twenty-five miles of any Arthur Murray dance studio, wherever the same may be located, in teaching dancing to, nor will he solicit the patronage of, any persons who at any time were or are pupils of the Licensor or the Licensee, or in teaching dancing to any other persons.

The Licensee gives the Licensor permission to use his name and photographs in all Arthur Murray advertisements, tie-ups with other advertisers and in any and all forms of advertising and publicity. Licensee agrees to obtain the same right to use the names and photos of his instructors, supervisors and interviewers, for himself and for the Licensor and Licensee will assume full responsibility and liability for Licensors use of the same and agrees to indemnify and hold Licensor harmless from any claim of any such employee for such use. A duplicate original of each such agreement and consent in writing between the Licensee and his dancing instructors, supervisors and interviewers shall be delivered to the Licensor before the employment of instructors, supervisors or interviewers.

fol. 137] 18. The Licensee shall not sell, transfer, assign, sublicense, mortgage or pledge this agreement or any rights or privileges accruing hereunder, to any persons, firm or corporation, without the written consent of the Licensor first had and obtained. In the event of the Licensee's bankruptcy or insolvency or adjudication as a bankrupt or insolvent under the National Bankruptcy Act, or under any other Insolvency Act, State or Federal, or if a Receiver shall be appointed by any Court of competent jurisdiction

to take possession of the property of the Licensee [illegible] agreement shall, immediately upon the happen[illegible] such events, terminate and come to an end.

19. The Licensee shall post in a conspicuous [illegible] reception room of his dancing school a [illegible] cate of Arthur Murray Dance Studio License [illegible] issued by the Licensor.

20. In the event of any breach of this agreement, [illegible] shall give Licensee written notice thereof and [illegible] shall have fifteen days in which to cure such br[illegible] notice shall be deemed to have been delivered to [illegible] forty-eight hours after it shall have been deposit[illegible] mails with proper postage affixed, addressed to [illegible] at any studio operated by Licensee.

Upon the failure of the Licensor to insist, in an[illegible] more instances, upon strict performance of any [illegible] of the terms and conditions of this agreement, or [illegible] cise any rights hereunder, shall not be construed [illegible] waiver thereof but the same shall continue and [illegible] full force and effect.

21. Licensee agrees to discharge any employe[illegible] three days after delivery of notice so to do at any [illegible] operated by Licensee addressed to Licensee and d[illegible] by Licensor to Licensee postage properly prepaid [illegible] tered mail.

22. Any failure of Licensee to cure a breach of [illegible] ment, as aforesaid, or any failure to discharge an [illegible] as aforesaid shall be good cause for termination [illegible] Such termination may be effected by Licensor [illegible] Licensee of its desire so to do in writing sent to [illegible] at any studio operated by Licensee by registered [illegible] [fol. 158] such termination shall be effective as of [illegible] indicated in such written notice.

23. This agreement shall be deemed to have been [illegible] in the State of New York and shall be construed [illegible] to the laws of the State.

24. This contract supersedes all contracts if any, [illegible] written or oral, between the parties hereto pertaining [illegible]

he operation of dancing schools except that any monies wed by Licensee to Licensor or its predecessors under he terms of such prior contract shall be paid. Any monies eld in escrow, trust or on deposit by Licensor or its predecessors pursuant to any prior contract shall be held by Licensor pursuant to the terms thereof.

25. This agreement contains the entire agreement between Licensor and Licensee, all or oral agreements being merged herein, and any agreements hereafter made shall e ineffective to change, modify or discharge it in whole or in part unless such agreement is in writing and signed by the party against whom enforcement of the change, modification or discharge is sought.

26. All pronouns and any variations thereof as used herein shall be deemed to refer to the masculine, feminine, singular, or plural as the identity of the person or persons may require.

27. This agreement shall commence as of the date hereof nd shall continue for one (1) years beyond the 31st day f August next succeeding the date hereof. Thereafter the term of this agreement shall be automatically renewed each year for a further period of one year unless either party mails a written notice of intention not to renew, to Licensee, at Licensee's address hereinbefore set forth or to Licensor at Licensor's then principal place of business, by registered mail, at least thirty (30) days prior to the end of any such annual period. If such notice is so mailed the term of this agreement shall terminate as of the 31st day of August next succeeding the mailing of said notice.

28. Licensee agrees that for the first three operating years of this contract (or for each year less than three (3) years that said contract is in effect), the Licensor shall be entitled to receive on account of the percentage of gross receipts, hereby provided to be paid by Licensee, the minimum sum of $2,500.00 with respect to each of said years. Licensor agrees, if remittances from Licensee to Licensor should total less than half of said minimum sum for any half of any of said first three operating years (or for any year less than three years that said contract is in

effect), that Licensee at Licensee's sold option, may ... this franchise only by paying the difference between the amount of remittances actually made by Licensee to Licensor for such six months operation and one half of the aforesaid minimum sum, within thirty (30) days after the close of such operating period. If Licensee fails to do so within said thirty (30) days, then Licensor may, after ... (30) days' written notice by registered mail to Licensee, mailed within sixty (60) days after the end of said operating period, request Licensee to pay the difference as aforesaid or to surrender the license and to cease and desist from doing business under the name of "Arthur Murray" or any similar name, and if the Licensee, ... thirty (30) days after the mailing of such written notice fails to remit to Licensor such difference, then Licensee agrees to surrender this license and to cease and desist from doing business under the name of "Arthur Murray" or any similar name. Any sum paid by Licensee to Licensor in excess of one half of the above specified minimum sum for the first six month period in any operating year shall be credited to any deficiency below one half thereof in the second half of that operating year.

With respect to the gross receipts of the licensee ... shall be required as a minimum after the end of the first three operating years of this contract, all of the cities in which Licensees of "Arthur Murray" operate schools (other than New York City) shall first be ranked according to their population (on the basis of the latest official U. S. Census); then all Licensees of "Arthur Murray" who operate schools (other than New York City) shall be ranked according to their gross receipts for the operating year in question. Gross receipts and population ranking as prepared by Licensor's certified public accountants shall be binding on Licensor and Licensee.

[fol. 140] If the gross receipts ranking of the Licensee is not better than three or less below the relative population ranking of the City in which the Licensee operates in any operating year after the third operating year of this contract then and in that event Licensee agrees that Licensor may, at its option, terminate this contract, as aforesaid and Licensee agrees, at the request of the Licensor, ...

surrender this license as aforesaid and to cease and desist from doing business under the name of "Arthur Murray" or any similar name.

Licensee may, however, retain this franchise, at Licensee's sole option, by paying, within thirty (30) days after the expiration of any such operating year (after the end of the third year hereof if same continues in effect for more than three years), any deficiency between the amount of the remittances actually made by Licensee and the amount necessary to be paid so that Licensee's total payments for the said operating year would entitle him to be ranked with respect to gross receipts of Arthur Murray Licensees not more than three places below the relative population ranking of the City in which the Licensee is operating for the said operating year. If Licensee fails to do so within thirty (30) days, then Licensor may, on thirty (30) days written notice by registered mail to Licensee, mailed within sixty (60) days after the end of any such operating year, request Licensee to pay such difference or to surrender this license and to cease and desist from doing business under the name of "Arthur Murray" or any similar name, and if the Licensee, within thirty (30) days after said mailing, fails to pay such difference (in the amount of such difference contained in said notice, certified to by Licensor's certified public accountants), then Licensee agrees to surrender this license and to cease and desist from doing business under the name of "Arthur Murray" or any similar name.

Nothing hereinabove contained shall be construed (provided Licensee elects to and does surrender and terminate this license and ceases to do business as aforesaid) to obligate Licensee to pay Licensor any of the aforesaid differences between payments actually made and the minimums aforestated. If Licensor fails to give said written notice by registered mail, as aforesaid, Licensor shall be [fol. 141] deemed to have waived its right to terminate this contract for Licensee's failure to make such minimum payment for such particular operating period or year as the case may be, without affecting Licensor's said rights with respect to any subsequent period or year.

The term "operating year" as used in this [illegible] shall be construed to mean the year commencing [illegible] date as of which this contract is signed without [illegible] to the date of its termination.

29. If Licensee fails to cease and desist from doing business under the name of "Arthur Murray" or any [illegible] name, upon any termination or cancellation [illegible] agreed that as liquidated damages (the exact [illegible] being difficult of ascertainment) the Licensor shall be entitled to recover from Licensee 50% of Licensee's gross receipts thereafter as long as Licensee continues [illegible] business under the name "Arthur Murray" or any name similar thereto.

30. Sixty days after the death of the Licensee (or if [illegible] Licensee be a partnership, then after the death of the last surviving partner) this franchise shall cease and come to an end unless an administrator (temporary or permanent) or an executor or executors of the estate of the Licensee or last survivor of the Licensees, if there be more than one, be appointed within said sixty days (60) after the death of the last survivor, and such administrator or executor within such period of time appoints a manager acceptable to the Licensor and thereafter this franchise shall terminate unless such administrator or executor (or trustee or Licensee's legatee continues to employ a manager satisfactory to Licensor. If any such manager proves unsatisfactory to Licensor at any time, such manager must be replaced [illegible] a manager satisfactory to Licensor within sixty (60) days after written demand by Licensor to such administrator or executor by registered mail.

31. All covenants on the part of all parties to be performed shall survive the surrender, termination or cancellation of this contract.

32. If this franchise should terminate pursuant [illegible] terms thereof, or if it should be cancelled for any reason [fol. 142] whatsoever, and if a new written contract is entered into, or if the franchise is reinstated in writing, [illegible] agreed, unless the parties otherwise agree, that any such new franchise or reinstatement shall be "as of" the [illegible]

following such termination or the day following the effective date of such cancellation.

33. Any controversy or claim arising out of, or relating to, this contract, or any alleged breach hereof, shall be settled by arbitration in New York City in accordance with the Rules, then obtaining, of the American Arbitration Association, and judgment upon the award rendered may be entered in any court of law or equity having jurisdiction of the parties or either of them.

34. Nothing herein contained shall prevent the Licensor, in a proper case, from applying to and obtaining from any court having jurisdiction, a writ of attachment, a writ of assistance, a receiver and/or other relief for the purpose of preserving the status quo of and/or protecting the enterprise contemplated hereby, pending the handing down of a decision or award pursuant to the arbitration clause contained herein.

In Witness Whereof, the parties hereto have set their hands and seals as of the day and year first above written.

Arthur Murray, Inc., By: Arthur Murray, Mark E. Stevens, Marzalie Stevens. (L. S.)

State of New York } ss.
County of New York }

On the 29 day of April, 1947, before me personally came Arthur Murray to be known, who being by me duly sworn, did depose and say, that he resides in ; that he is the of Arthur Murray, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the [fol. 143] Board of Directors of said corporation, and that he signed h... name thereto by like order.

Edward G. Siegel
Notary Public in the State of New York
Residing in Queens County
N. Y. Co. Clk's No. 1205, Reg. No. 1818-S-9
Queens County Clerk's No. 1986
Commission Expires March 30, 1949

State of Nebraska }
County of Douglas } ss.

On this 16 day of June, 1946, before me personally appeared Mark E. Stevens and Marzalie Stevens, known and known to me to be the individuals described in and who executed the foregoing instrument, and duly acknowledged to me that they executed the same.

Myrtle Skaggs,
Notary Public.

This rider is substituted for sentences crossed out on lines 11 to 14 inclusive in Paragraph 6 of the Agreement between Arthur Murray, Inc., and Mark E. Stevens and Marzalie Stevens, attached hereto and made a part hereof.

"Such payments shall continue until the Licensee has deposited the total sum of $20,000.00 with the Licensor. Thereafter, no further payments need be made to Licensee's Escrow Fund unless said fund is depleted by payments therefrom, in which case payments shall be continued or resumed by Licensee at said rate until said Fund amounts to the sum of $20,000.00."

"Arthur Murray" Inc. and Mark E. Stevens and Marzalie Stevens, Omaha, Nebraska.

Franchise Agreement.

[fol. 144] By Mr. Bauersfeld:

Q. Does Arthur Murray, Inc., exercise any control over the operation of the local franchise?

A. They exercise considerable control: all operating policies and procedures are designed by Arthur Murray, Inc., and the franchised studios must operate their studios in accordance with the policies and procedures designed by Arthur Murray, Inc. Some of the specific controls that are in effect are that Arthur Murray of New York has the right to approve or reject the location of any franchised studio, it has the right to approve or disapprove interior decorations and furnishings of studios and if the studio is not up to the high standard demanded by Arthur

Murray. Arthur Murray has the right to come in and put such studio up to standard and charge such cost to the franchised Studio. Insofar as training and personnel of a franchised studio are concerned, Arthur Murray has in effect a requirement that a teacher must have 200 hours in a teaching class before being permitted to teach students on the dance floor. Arthur Murray has the right to reject or accept any persons hired by a franchised studio and at any time it so desires to require the firing of such personnel. It also has in effect a requirement as to minimum wage scales that the teachers and other employees of the studio would be paid. Insofar as the advertising and gross of the franchised studio, Arthur Murray has a requirement that if the advertising expenditures of the studio do not bear a certain relationship to the gross and provided the gross is not up to the standard demanded by Arthur Murray, Arthur Murray has the right to come in and take over the advertising program of the studio and to spend whatever money is required to get the gross up to the standard and charge such expense up to the studio. Also Arthur Murray of New York has another requirement in that the Studios must attain a certain par figure of gross. This par figure is revised from time to time but if the franchised Studio failed to hit this par figure the penalty thereof is an assessment of royalties on the par amount rather than on the actual gross receipts received by the franchised Studio.

In addition to these requirements, each franchised Studio is required to participate in all national advertising pro- [fol. 145] grams, all national contests. They are required to, I believe, attend dance seminars in New York for the purpose of keeping abreast of all new methods and developments in dance instructions. They are required to have various parties every month for the purpose of getting students together, giving them a good time, and what have you. They are required also to have several group or technique classes each week for their private students.

In addition to those requirements, there are a number of reporting requirements to Arthur Murray of New York. They have to report on a weekly basis the number of sales,

type of sale whether it be deferred plan, extension course or what have you; for each course sold they have to give the name of the student, amount of the contract, and everything pertaining to that contract. In addition to that, they have to report daily receipts by student as to the amount received from each student each day. Also they have to return a time sheet for every employee giving as to the number of hours worked, amount paid each employee, et cetera. There are other requirements, but that's about all I can think of right now.

Q. What is the type of dance instruction given by the partnership?

A. It's private ballroom dance instruction.

Q. How long a period does a contract of instruction last or extend?

A. That would depend upon the amount of the course that was sold. Some courses are five hours and other courses range upward to 1,000 hours, and even some are lifetime courses. The smaller type of course may be sold and completed within the same fiscal year but a substantial number of courses that are sold, do extend beyond the fiscal year when sold.

Q. Will you explain what you mean by a lifetime course?

A. A lifetime course is where the student is entitled to a basic number of lessons, which used to be 1,000 hours of dance instruction and I believe at the present time it has been raised to 1,200 hours. In addition to the basic number of lessons they are entitled to two hours per month for the rest of their lives. Say a person is on the 1,000 hour or lifetime course, after the completion of that 1,000 hour course the student would be entitled to two hours per month for the rest of his life.

[fol. 146] Q. Is there any benefit like parties that lifetime students may be entitled to?

A. Yes, I believe they do have lifetime parties for the lifetime students.

Q. How often?

A. I'm not sure but I believe it's twice a year. I'm not sure.

Q. Did you install the bookkeeping system for the Schludes in 1946 when they came to you?

A. Yes, sir.

Q. Will you, in general, describe that bookkeeping system?

A. It's a complete set of double-entry records maintained on the accrual system of accounting. Income is recorded in the period when earned and costs and expenses are recorded in the period when incurred. In order to understand better how the method of taking income into account when earned is done I think requires some type of understanding of the transactions actually entered into between the Studio and the student. When a contract is entered into with a student the cash price or contract price of the course is entered on the books as a charge to the student, representing his obligation to pay, and is credited to deferred income, representing the Studio's obligation to perform that service. As the service is performed, as the hours of instruction are given, the amount is transferred out of deferred income into earned income.

Q. Will you describe the books and records which are maintained under this system by the partnership?

A. Each Studio, and there are five of them, has a separate set of books, general ledger, cash receipts register, sales register, check disbursements register and general journal, and in addition thereto there are student's cards made up.

The Clerk: Petitioner's Exhibit No. 23 is marked for identification.

(The card referred to was marked as Petitioner's Exhibit No. 23, for identification.)

By Mr. Bauersfeld:

Q. Mr. Davis, I hand you Petitioner's Exhibit No. 23 for identification and ask you to identify it.

[fol. 147] A. This is the student's card that is maintained by the Studio on each course sold by the Studio.

Q. And what is kept on the individual student card?

A. The name and address of the student, the amount of the course that has been sold, the hours involved and the total contract price, and the sale also is classed as between

the original, extension or renewal type of sale. The lessons that are given to the student are recorded on the card and the date of each lesson and the teacher's name and the mere subtraction, of course, of the total hours to date from the total amount in the contract gives you the unused hours at any particular time. Also the card shows the date and the amount of each payment and the balance due on the course:

Mr. Bauersfeld: At this time I'd like to offer in evidence Petitioner's Exhibit No. 23.

Mr. McCormick: No objection.

The Court: It will be received in evidence, Petitioner's Exhibit No. 23.

(The card referred to, heretofore marked as Petitioner's Exhibit No. 23, for identification, was received in evidence as Petitioner's Exhibit No. 23.)

MAR APR MAY JUNE JULY AUG SEPT OCT NOV DEC

DATE SENIOR JUNIOR

SUPERVISOR TEACHER

POTL.

BUS PHONE

BRONZE GOLD TOT HRS

DATE TEACHER ARRANGEMENTS

REN. REN.

DATE

TAX COURT OF THE U.S.
MARKED FOR IDENTIFICATION
ADMITTED IN EVIDENCE
MAR 24 1958
PETITIONER'S EXHIBIT
RESPONDENT'S EXHIBIT
No.

fol. 189 By Mr. Bauersfeld:

Q. When a course is sold, what entries are made?

A. When a course is sold, the amount of the course is charged to the student, representing his obligation to the Studio and is credited to the deferred income account representing the Studio's obligation to perform. At the same time the sale is entered into the general books of account a card is made and appropriate entries made thereon.

Q. When you refer to "Studio", in your testimony, you are referring to the partnership of Arthur Murray Dance Studios?

A. Yes, sir.

Q. By the way where are the books and records of the partnership maintained?

A. In my office.

Q. How is that partnership earned income finally determined at the end of the year?

A. Each course is completely analyzed as to the number of hours that were taught during the fiscal year. The rate per hour on that particular course and of course the amount of applicable earned income and all these courses are added and balanced and the total amount of earned income arrived at for the fiscal year and the books and records are adjusted to that analyzed figure.

Mr. Bauersfeld: I ask that this be marked as Petitioner's Exhibit No. 24.

The Court: It will be marked for identification as Petitioner's Exhibit No. 24.

(The schedule referred to was marked as Petitioner's Exhibit No. 24, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 24, and ask you to identify it.

A. This is a schedule I prepared reflecting the transactions affecting contract amount of deferred income and relating untaught lessons and balances at the end of each fiscal year for the years ending March 31, 1950 through

March 31, 1954. It shows the total contract amount of deferred income outstanding at the beginning of each year. It shows the total contract amount of sales made during each fiscal year. It shows the total contract amount of (Col. 150) income transferred to earned income, the total amount of contracts transferred to earned income and the total contract amount earned and cancelled due to lack of activity and the contract balance of earned income at the end of each year. In addition to that, it shows the beginning number of untaught hours at the beginning of each fiscal year, the sales in hours made each year, the actual hours taught during each year and the actual number of hours cancelled each year and the balance of untaught hours at the end of each fiscal year.

Q. In effect this is a complete history of the deferred income account and the untaught hours?

A. That is right, this is a complete history of the deferred income account and the untaught hours for the entire five-year period.

Mr. Bauersfeld: I offer this document in evidence as Petitioner's Exhibit No. 24.

Mr. McCormick: It's a rather complicated schedule which we haven't seen, Your Honor.

The Court: May I see it, please?

Mr. Bauersfeld: Yes, sir.

The Court: I'm assuming that this now is a schedule. I'm reading now the title of it, "Schedule reflecting transactions affecting contract amount of deferred income and relating untaught hours and balances at the end of each fiscal year." Now, it's my understanding that the witness, who is a certified public accountant, has made this statement from the books that I take it are in the courtroom. Are they?

The Witness: Yes, sir.

The Court: And of course, the statement is that they are made up according to the way the accountant thinks they should be made up and the way that the petitioner contends is correct. That, of course, does not preclude the respondent from having some different theory and if he wishes to compile a similar statement for his theory it

might be he will do so. Whether it will, I don't know. But it seems to me this is an admissible document. It does not, of course, preclude the respondent from questioning [fol. 151] the method of it and arguing the method nor would it be binding upon the Court to accept it, but on the other hand it seems to me it is evidentiary of the very point that is in litigation in this case.

Mr. McCormick: Yes, sir. I don't suppose it would be possible to reserve objection until possible after lunch, until after I have had an opportunity to look at it?

The Court: You may make an objection at that time if you wish to state one and the Court will permit you to make one. I understand this has not been furnished to you before. It will be received as Petitioner's Exhibit No. 24, subject, however, to the right of the respondent to object to it if he sees fit to urge some objection. The Court again states this is just one exhibit or just one bit of evidence in the case which the Court permits because he is assured that the books and records are in the court room. Of course, they could not offer a statement of this kind unless the books and records are here. The exhibit is received as Petitioner's Exhibit No. 24, and you may proceed.

(The schedule referred to, heretofore marked as Petitioner's Exhibit No. 24, for identification, was received in evidence as Petitioner's Exhibit No. 24.)

Schedule Reflecting Transactions Affecting Contract Amount of Deferred Income and Related Untaught Hours and Balances at the End of Each Fiscal Year

Arthur Murray Dance Studio—A Partnership

	For the Fiscal Year Ended				
	March 31, 1950	March 31, 1951	March 31, 1952	March 31, 1953	March 31, 1954
Contract Amount of Deferred Income Balance—Beginning	$ 37,84[illegible]	$ 72,[illegible]	$106,[illegible]41.70	$131,[illegible]	[illegible]
Additions During Year Contract Amount of Sales	185,[illegible]	[illegible]	23[illegible],[illegible]6.68	[illegible]	[illegible]
	$2[illegible]	[illegible]17	$[illegible]	$[illegible]	[illegible]
Deductions					
Contract Amount Transferred to Earned Income	$11[illegible]	[illegible]	$14[illegible],949.63	$243,277.46	$325,20[illegible]
Contract Amount Unearned and Cancelled Due to Lack of Activity	[illegible]	38,926.73	66,844.83	82,217.78	[illegible]
Total Deductions	$151,165.67	$177,522.47	$210,794.46	$[illegible]5.21	$[illegible]
Balance—Ending—of Contract Amount of Deferred Income	[illegible]	[illegible]	[illegible]	$235,912.33	[illegible]
Untaught Hours Balance—Beginning	5,767	11,341	[illegible]	17,486	[illegible]
Additions Sales	[illegible]	[illegible]	[illegible]	52,649	[illegible]
	[illegible]2,982	[illegible]	[illegible]	[illegible]	[illegible]
Deductions					
Hours Taught—Transferred to Earned Income	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hours Untaught—Cancelled Due to Inactivity	[illegible]	[illegible]	[illegible]	10,541	[illegible]
Total Deductions	21,641	21,3[illegible]	26,58[illegible]	38,967½	[illegible]
Balance—Ending—of Untaught Hours	11,341	15,[illegible]1½	17,486	31,168	[illegible]

[fol. 153] By Mr. Bauersfeld:

Q. Does the partnership ever decrease the number of hours of a course after it is originally written for sale a larger course?

A. Yes, sir, quite frequently it's necessary to rewrite a course for a smaller sum of money.

Q. How is this handled on the books of account when a course is reduced?

A. When a course is reduced in amount, the cancelled portion of the course is charged to deferred income, reducing the deferred-income account and credited to accounts receivable for the unpaid balance of the course, and the gain or loss is computed thereon.

Q. What entries are made when a student fails to complete his lessons?

A. When a student fails to complete his lessons, the unearned portion of the contract is eliminated from the accounts and if there is any unpaid accounts receivable of course they are credited to accounts receivable and the gain or loss computed on the cancelled contracts.

Q. During the years here involved by stipulation, paragraph XII, it has been stipulated that income as reflected in the partnership's books and returns for the fiscal years ended March 31, 1950 and March 31, 1954, includes gains or cancellations of students contracts as follows, and then there are those listed. Is that what is taken into account at that time?

A. That's right, that is the gain of cancellations over costs.

Q. Were these cash refunds ever made on any course that was cancelled?

A. Yes, sir.

Q. How were they handled on the books?

A. They were also handled in the same procedure as a charge against deferred income and the applicable accounts receivable written off and the gain or loss determined at that time.

Mr. McCormick: Your Honor, I object to the last testimony and ask that it be stricken from the record as inconsistent with the stipulation of facts. The exhibits

attached to the stipulation of facts contain contracts which specifically state that no cash refunds will be allowed. (Ibid. 154.) The Court: Well, the contract might so provide but if cash refunds were actually made, for the purposes of the income tax law they are made and whatever effect they have I don't know. It may be that according to the contract he wasn't bound to make any refunds but nevertheless we certainly have terms of contracts that are frequently waived. I'll overrule the objection.

By Mr. Bauersfeld:

Q. How do you determine what contracts are to be adjusted for lack of student activity?

A. For bookkeeping purposes a contract is deemed to have sufficient lack of activity on it to warrant cancellation if there has been a lack of activity on the course for more than one year. At that time the contract would be written off the books if it didn't have any activity on it for a period of one year.

Q. What would be done with the income?

A. It would be taken into account immediately as a gain on cancellation of the course.

Q. Do Mr. and Mrs. Schlude work in the business?

A. Yes, sir; quite a bit.

Q. What do they do?

A. They supervise the entire operations of the Omaha, Lincoln, Sioux City and Grand Island schools, and are, of course, in the schools all the time, quite frequently even working on Sundays.

Q. Does that apply to both Mr. and Mrs. Schlude?

A. Yes, sir.

Q. How much of their time do they devote to the business?

A. I'd say all of their time.

Q. Does the partnership incur any expenses in giving a course of dancing instructions?

A. Yes, sir.

Q. What is the nature of the expenses?

A. Well, they incur instructors' salaries, other types of salaries, office salaries, advertising, royalties, music supplies, music cost, records, depreciation of teaching facilities, student parties, contests, travel and convention, rent,

heat, light, water and other occupancy expenses, insurance, taxes, professional services and other general expenses.

Q. Does the accounting system of the partnership, in [fol. 155] your opinion, properly reflect the true income of the partnership?

A. Yes, sir, and it is the only system that will reflect the true income of the partnership.

Q. Why do you say it is the only system that will properly reflect the true income of the partnership?

A. It is the only system that takes income into account when earned and the related costs and expenses in the period when incurred. In other words, it's necessary under the accrual system of accounting to deduct from the income earned the cost and expenses incurred to produce that income. To take income into account for one period and the costs and expenses for another period does not properly reflect the true income. Under the actual system of accounting by the taxpayer the income is taken into account when earned and the costs and expenses in the same period so there is a true matching of expense against income so the true income can be determined.

Q. Would not you get the same result by accruing the costs and expenses against the income received?

A. No, sir. In order to compute the costs and expenses against the income received would require a great deal of estimation on the part of the accountant or bookkeeper to set up those costs on the books to offset income received. Under this system of accounting income is deferred until the costs and expenses incurred to produce that income are recorded on the books. In other words, there is nothing left to speculation, we wait until we have the known factors involved before computing the net income.

Q. Have the tax returns been prepared in accordance with the method of accounting regularly employed by the partnership in keeping the books?

A. Yes, sir.

Q. Has the system you installed in 1946 been used consistently over the years?

A. Yes, sir.

Q. Does the system of accounting employed by the partnership bear a true relation to the services rendered and the costs to be incurred by the partnership?

A. Yes, sir, there is a true relationship. Income is taken into account when the actual hours of instructions are given to the student and it is on the basis of the actual hours of instruction that the teachers are paid their [fol. 156] compensation. Other instruction costs are taken into account during the period which are applicable to the earned income, such as teachers' salaries, teaching supplies, depreciation of teaching facilities, student parties, and the rent and occupational expenses, taxes and insurance in connection therewith and all other instructional costs are taken into account during the period that the income is taken into account and therefore there is a direct relationship between the income reported and the services actually performed by the partnership and the cost of those services.

Q. In other words, there is no artificial or allocation of costs or expenses involved in this case?

A. No, sir.

Q. Did the partnership, during the taxable years of 1950, 1952, 1953 and 1954, have sufficient assets to cover all their liabilities in their deferred income?

A. Yes, sir, more than a sufficient amount.

Mr. Bauersfeld: We ask that this be marked as Petitioner's Exhibit No. 25.

The Court: It will be marked for identification as Petitioner's Exhibit No. 25.

(The schedule referred to was marked as Petitioner's Exhibit No. 25, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 25 and ask you to identify it, please.

A. This is a schedule I prepared reflecting the excess of assets over liabilities at the end of each fiscal year, March 31, 1950, through March 31, 1954. It shows the total assets, cash, loans and miscellaneous receivables, investments, the Arthur Murray escrow fund, fixed assets and other assets as compared against liabilities and deferred income. In each case, for each year, there were excess assets over liabilities and deferred income and, in fact, if you take the cash amounts alone with the Arthur

Murray escrow fund, those two items alone exceeded the collected amount or deferred income at the end of each fiscal year.

Q. Will you tell us what the Arthur Murray escrow fund is?

[fol. 157] A. That is a fund accumulated at the rate of five percent of gross receipts for the purpose of protecting and indemnifying Arthur Murray and to provide a source from which refunds can be made for paid and unused lessons sold.

Q. From what records was this document prepared?

A. This was prepared from the partnership records and the partners' personal bank accounts.

Q. So that included in the item of cash, it includes not only the cash in the partnership account but in the individual accounts of the partners—

A. That's correct.

Q. —at the time?

A. That's correct.

Q. Are the books and other records from which this was prepared in the courtroom?

A. Yes, sir.

Mr. Bauersfeld: I offer the document in evidence.

The Court: Do you wish to examine that, Mr. McCormick?

Mr. McCormick: Yes, sir.

The Court: Do you have a copy there for him?

Mr. McCormick: We have a copy.

The Court: All right.

Mr. McCormick: The only thing is we would like again to reserve the opportunity to object.

The Court: You mean you want to reserve as you did on the other?

Mr. McCormick: Yes, sir.

The Court: The Court will hear any objection when we reconvene this afternoon. The exhibit, Petitioner's Exhibit No. 25, is received.

(The schedule referred to, heretofore marked as Petitioner's Exhibit No. 25, for identification, was received in evidence as Petitioner's Exhibit No. 25.)

Schedule Reflecting Excess of Assets Over Liabilities at End of Each Fiscal Year

Arthur Murray Dance Studio—A Partnership

	March 31 1950	March 31 1951	March 31 1952	March 31 1953	March 31 1954
Assets					
Cash	$ 38,534.60	$ 46,744.14	$ 49,720.26	$ 78,533.11	$127,214.53
Loans and Miscellaneous Receivables	25.00	200.00	62.50	11,000.00	6,487.50
Investments—At Cost	....			....	26,990.00
Arthur Murray Escrow Fund	18,802.01	26,827.77	30,225.73	34,922.59	37,677.61
Fixed Assets—At Cost Less Accumulated Depreciation	9,946.93	13,753.30	15,074.94	28,035.32	36,825.59
Other Assets	77.00	77.00	77.00	152.00	182.00
Prepaid Expenses	337.39	840.51	983.09	874.78	699.04
Total Assets	$ 67,722.93	$ 88,442.72	$ 96,143.52	$153,817.80	$236,076.27
Liabilities and Deferred Income					
Accounts Payable and Accrued Expenses Payable	$ 4,038.93	$ 4,771.68	$ 7,331.58	$ 7,878.30	$ [illegible]
Deferred Income—(Liability for Cash Received and Unearned at End of Year)	28,776.92	43,187.43	59,572.95	111,496.39	129,029.[illegible]
Total Liabilities and Deferred Income	$ 32,815.85	$ 47,959.11	$ 66,904.53	$119,374.69	$144,96[illegible]
Net Worth					
Excess of Assets Over Liabilities and Deferred Income	$ 34,907.08	$ 40,483.61	$ 29,238.99	$ 34,443.11	$ 91,1[illegible]

[fol. 159] By Mr. Bauersfeld:

Q. Are you familiar with the adjustments made by the Commissioner in the statutory notices of deficiency regarding deferred income account?

A. Yes, sir.

Q. Do the adjustments made in the notices of deficiency as to deferred income result in a determination of the partnership's true income?

A. I don't believe I understand the question.

Q. Do the adjustments made in the notices of deficiency to the deferred income of the partnership result in a determination of the partnership's true income?

Mr. McCormick: Your Honor, I'd like to object to that, as being—

The Court: I suppose you mean to ask him this, that—

Mr. McCormick: His opinion.

The Court: —as a certified public accountant is it his opinion that it is what you state?

Mr. Bauersfeld: Yes, sir, that is correct, Your Honor.

The Court: That is the way the respondent was going to suggest you asked it?

Mr. McCormick: Yes, sir.

The Court: Otherwise it might be termed a conclusion, but he may give his opinion.

Mr. Bauersfeld: You may answer that.

A. No, sir, it doesn't reflect properly the income, in fact it completely distorts the income.

By Mr. Bauersfeld:

Q. Why, in your opinion as a certified public accountant, do you believe that the Commissioner's adjustments distort the income?

A. Well, there are several reasons why it distorts the income. The Commissioner's method concludes that the dollar sales each year are income in the year in which the contract is signed, when the actual cancellation experience of the Studio proves that a substantial amount of these [fol. 160] contracts never will be realized as income. Secondly, the distortion of income occurs because it violates

one basic principle of the accrual method of accounting, that the income must be recorded in the same period, the same fiscal year, as are the costs and expenses incurred for the rendering of the services that produce that income. In other words, it isn't an accrual system of accounting unless you properly match your income with the costs and expenses that produce that income. Another thing I believe the Commissioner's method completely disregards is that in order to be income for any business organization, that business organization must give something of value to the customer before income can be realized. Income is not realized by the mere scratching of a pen across the surface of a contract. You have to give something. It is the teaching of the hours that create the right to the income and not the mere execution of the contract.

Q. Do I understand your testimony to be that the Commissioner's determination of income is not based upon even the actual receipt of cash?

A. No, it isn't based on the actual amount of money received, it's based on the execution of the contract whether or not cash has been received on it.

Mr. Baiersfeld: I ask that this be marked as Petitioner's Exhibit No. 26 for identification.

The Court: It will be marked for identification as Petitioner's Exhibit No. 26.

(The schedule referred to was marked as Petitioner's Exhibit No. 26, for identification.)

By Mr. Baiersfeld:

Q. I hand you Petitioner's Exhibit No. 26 and ask you to identify it?

A. This is a schedule I have prepared reflecting the comparison of gross income computed on the contract-executed basis with the gross income computed on the cash basis for each of the fiscal years from March 31, 1950, through March 31, 1954. It shows that the—

Q. May I interrupt you there?

A. Yes.

Q. And ask you what you mean by contract-executed basis?

[fol. 161] A. Well, for lack of a better way, that is what I call the Commissioner's method. It isn't an established, used method. I just refer it to as the contract executed basis.

Q. You will so refer to it in your future testimony here?

A. Yes, sir.

The Court: Does that represent what the Commissioner has done in his determination of the deficiency?

The Witness: Yes, sir.

The Court: All right.

The Witness: The gross income on the contract executed basis is tabulated in the first column for each year and the gross income on the cash basis—in other words, the actual cash received from lessons—is reflected in the second column. In the third column it reflects the excess on the contract executed basis of gross income; for the year ended March 31, 1950, the income on the contract executed basis exceeded the gross income $46,069.04; for the year ended March 31, 1951, the excess amounted to $48,448.61; for the year ended March 31, 1951, the excess amounted to $48,200.13, and for the year ended March 31, 1953, the excess amounted to $115,609.39, and for the year ended March 31, 1954, the excess amounted to $80,791.54.

Mr. Bauersfeld: At this time I'd like to offer the document in evidence, Petitioner's Exhibit No. 26.

Mr. McCormick: We'd like to reserve again.

The Court: Yes, sir, you may make the same reservation. The Court will make this remark at this particular juncture, the Court does not understand that the Commissioner has undertaken to put the Petitioners on the cash basis.

Mr. McCormick: No, sir.

The Court: Apparently both concede that the Petitioner is on an accrual basis.

Mr. Bauersfeld: Yes, sir.

The Court: And as I understand it, the dispute between you is that under an accrual basis the petitioner [fol. 162] has pursued the proper method and the Commissioner has pursued the wrong method. This Exhibit makes a comparison between what the Commissioner has done and

what would have been the case if the cash basis had been used. It appears to the Court that is more or less immaterial. It may be useful from an argumentative standpoint. ~~I don't know. But certainly it is frequently the case that~~ income on an accrual basis might be considerably greater than it would be on the cash basis, yet that wouldn't spell anything at all if the Petitioner was on an accrual basis and had properly used the accrual basis or had not properly used it and the Commissioner had made adjustments. It would not spell anything at all. It would have showed by comparison he would have much less income on the comparison basis. I'm just leaving that open. It could only be useful at all for argumentative purposes because I don't understand the Commissioner is contending he should be on the cash basis. They both agree they should be on the accrual basis.

Mr. Bauersfeld: Your Honor stated the situation correctly. We contend and the Commissioner contends he should be on the accrual basis. However, there are certain cases where they have, as I said in my opening statement, the Commissioner hasn't specifically said at this time he was relying on the claim of right doctrine in this case. However, there is another case where they have. In no case has the Court held a taxpayer is taxable on more than the actual cash received.

The Court: The Court was wondering what the purpose would be. I understand you are both agreed it's on the accrual basis. It would be only admissible on the theory you're speaking of.

It has been received and the respondent, if he does object, may do so when we reconvene.

(The schedule referred to, heretofore marked as Petitioner's Exhibit No. 26, for identification, was received in evidence as Petitioner's Exhibit No. 26.)

[fol. 163]

PETITIONER'S EXHIBIT 26

Schedule Reflecting Comparison of Gross Income Computed on Contract Executed Basis With Gross Income Computed on Cash Basis.

Arthur Murray Dance Studio—A Partnership.

Fiscal Year Ended	Gross Income on Contract Executed Basis	Gross Income on Cash Basis	Contract Executed Basis Over Cash Basis
March 31, 1950	$185,933.50	$139,864.46	$ 46,069.04
March 31, 1951	209,453.30	161,004.69	48,448.61
March 31, 1952	235,396.68	187,196.55	48,200.13
March 31, 1953	430,293.65	314,684.26	115,609.39
March 31, 1954	452,040.70	371,249.16	80,791.54

The Court: You may now proceed with the witness.

By Mr. Bauersfeld:

Q. Does the Commissioner's determination include as income all accounts receivable?

A. Yes, sir, the inclusion of accounts receivable into income is admittedly the normal thing to do under the accrual system of accounting. However, there is a great distinction; under the accrual system of accounting it must be determined receivables in order to be included in the determination of net income and not just a memorandum of an account reflecting a total contract that might be involved. In other words, to put it a different way, you might refer to it as a contractor here in the city of Omaha might receive a $2,000,000.00 contract. He may book that contract immediately upon signing of that contract and debit contracts receivable and credit reserve for incomplete contracts. However, that is not earned receivables and would not be earned income at that time. That might take three years to complete and there would be earned billings during the three year period those would be earned. You could

compare it to a company who has received some back orders for merchandise yet to be delivered or to be manufactured. [fol. 164] Those orders could also be placed on the books as an asset and a credit to reserve for uncompleted orders. However, that is not a good accounts receivable, it's merely setting up the contract on the books so you have control of those contracts so that for the future you know what you have to work with. They are by no stretch of the imagination an earned account receivable.

Mr. McCormick: Your Honor, do I understand this gentleman's testimony the same as you do, that it's all related to his opinion?

The Court: Yes, the Court understands it. I think I understand the illustrations that the accountant has in mind as to the difference in accounts receivable. For example, if an automobile dealer in Omaha, Nebraska, makes a sale of a car for $2,000.00, that's a completed transaction. It may be it's payable over 24 months or 36 months but on the accrual basis he would accrue the entire account then and there and this witness concedes that is an account receivable, that all accounts receivable of that kind goes into accrued income. But he states that in his opinion that as in this Arthur Murray Dance Studio there is a contract to give a certain number of dance lessons for a certain amount, that that is not like the sale of goods. It's an agreement to render services and only such services as were rendered in the taxable year would be subject to accrual. Is that correct?

Mr. Bauersfeld: That's correct, sir.

The Court: Yes. Of course, that is an expert opinion.

Mr. McCormick: Yes, sir. I just wondered if it was understood in the record.

The Court: Well, the Court understands perfectly well. The Court also understands that there are a good many income tax transactions which do not comply with good accounting. He also understands that but he is not passing on this. In other words, income taxes don't always square up with good accounting. I'm not passing on this case at all, but it's perfectly proper, I think, for the witness to give the testimony he has given. As I understand it, that is the substance of it. This is not a case of an auto-

mobile salesman or hardware merchant selling merchandise, even though they may be payable in two or three or four [fol. 165] years, nevertheless they have to be accrued. On the other hand, he says this is entirely different. This is not the sale of goods but the sale of services. That makes a difference, as I understand it, from the viewpoint of the accounting witness.

Is there anything else you want to ask?

Mr. Bauersfeld: Yes. I haven't completed my examination.

The Court: Yes. All right.

Mr. Bauersfeld: May I have this marked as Petitioner's Exhibit No. 27.

The Court: It will be marked for identification as Petitioner's Exhibit No. 27.

(The schedule referred to was marked as Petitioner's Exhibit No. 27, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 27 and ask you to identify it.

A. This is a schedule I prepared reflecting the dollar amount of executed contracts cancelled and relating to the uncollectible students accounts receivable on contracts cancelled for each of the fiscal years ended March 31, 1950, through March 31, 1954.

The Court: And these were made from books and records that are in the courtroom?

The Witness: Yes, sir.

By Mr. Bauersfeld:

Q. What do the columns show? Will you explain the schedule?

A. The first column is headed "dollar amount of executed contracts cancelled" and the second column is headed "uncollectible accounts receivable on contracts cancelled". In other words, to take the fiscal year ended March 31, 1954, as an illustration, the total amount of contracts cancelled during that year amounted to $113,975.76. That is the total

unearned portion of the contracts that were cancelled during that year because of lack of student activity thereon. On those contracts that were cancelled, there was an unpaid [fol. 166] balance amounting to $85,527.15. The difference between those two figures would represent the gain on cancellations for that particular year.

Q. And the gain on cancellations again is the figure that is set forth in paragraph XII of the stipulation of facts and this in the year ended March 31, 1954, would be $28,448.61?

A. Yes, sir, that is correct.

Q. And that amount was taken into income on the cancellations in 1954?

A. Yes, sir.

The Court: By the taxpayer?

By Mr. Bauersfeld:

Q. By the taxpayer?

A. Yes, that's correct.

The Court: That Petitioner's Exhibit No. 27, have you examined it, Mr. McCormick?

Mr. McCormick: Yes. I'd like to reserve on that one also.

The Court: All right, it will be received, Petitioner's Exhibit No. 27.

(The schedule referred to, heretofore marked as Petitioner's Evidence No. 27, for identification, was received in evidence as Petitioner's Exhibit No. 27.)

PETITIONER'S EXHIBIT 27

Schedule Reflecting Dollar Amount of Executed Contracts Cancelled and Related Uncollectible Students Accounts Receivable on Contracts Cancelled.

Arthur Murray Dance Studio—A Partnership.

Fiscal Year Ended	Dollar Amount of Executed Contracts Cancelled	Uncollectible Accounts Receivable on Contracts Cancelled
March 31, 1950	$ 31,580.53	$ 26,203.60
March 31, 1951	38,926.73	28,929.29
March 31, 1952	66,844.83	39,982.43
March 31, 1953	82,217.78	62,784.42
March 31, 1954	143,975.76	85,527.15

[fol. 167] Mr. Bauersfeld: I ask that this document be Petitioner's Exhibit for identification No. 28.

The Court: It will be marked for identification as Petitioner's Exhibit No. 28.

(The schedule referred to was marked as Petitioner's Exhibit No. 28, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 28 and ask you to identify it.

A. This is a schedule I prepared reflecting the result of the Commissioner's determination of gross income on contracts executed basis for the fiscal years ended March 31, 1950, through March 31, 1954. The schedule for the determination of net income reflects the total dollar sales made during each of those years from those dollar sales we have deducted expenses as shown by the partnership and have in addition deducted the bad debts during each of those years that the Commissioner has automatically allowed by picking up the net increase in deferred income and arriving at the net taxable income for each of the

years on the so-called contract executed basis. The lower half of the schedule is headed up "cash receipts and disbursements statement" and actually shows the impossible situation that would result if the Commissioner's method of reporting income was to be sustained. For each of the years we have the amount of cash receipts and deducted from the cash receipts the amount of operating expenses paid by the partnership and the escrow funds paid to Arthur Murray and acquisition of fixed assets and the income-tax costs that would be paid on that basis of determining income. For the year ending March 31, 1950, there would be a cash deficit of $5,121.14; for the year ending March 31, 1951, there would be a cash deficit of $11,768.42; for the year ending March 31, 1952, there would be a cash surplus of $8,844.02; for the year ending March 31, 1953, there would be a cash deficit of $22,632.49; for the year ending March 31, 1954, there would be a cash surplus of $15,418.11. For the five-year period from April 1, 1949 through March 31, 1954, there would be an accumulated cash deficit of $15,259.92 if the Commissioner's method of [fol. 168] determining income and the resulting income tax on that income were paid.

Also, I'd like to note this, it will be noted in each of these cases the sales for each of these years has actually increased, and that if the sales, for instance, for the year ending March 31, 1954, had decreased the result for that five-year period would have been greater.

Q. From what did you prepare this schedule?

A. Well, the sales, of course, are shown on the books of account.

Q. Were these prepared from the books of account?

A. That's right. Every single item on here is reflected by the books of account, with the exception of the income tax costs which were calculated.

Q. I notice it is computed at the 1954 tax levels?

A. Yes. I believe that to be somewhat conservative insofar as the 1954 rates were somewhat less than in earlier years.

Schedule Reflecting Result of Commissioner's Determination of Gross Income on Contract Executed Basis

Arthur Murray Dance Studio—A Partnership

	Fiscal Years Ended March 31, 1950	March 31, 1951	March 31, 1952	March 31, 1953	March 31, 1954
Determination of Net Income					
Gross Income—Sales	$185,93[illegible].50	$209,453.30	$235,396.68	$430,293.65	$452,0[illegible]
Operating Expenses					
Expenses—Per Partnership Return	$106,5[illegible].90	$123,351.31	$137,267.91	$223,390.69	$301,609.76
Bad Debts	26,203.60	28,929.29	39,983.43	62,734.42	85,527.1[illegible]
Total Operating Expenses	$132,747.50	$152,280.60	$177,251.34	$286,125.11	$387,13[illegible]
Net Taxable Income	$ 53,186.00	$ 57,172.70	$ 58,145.34	$144,168.54	$ 64,903.79
Income Tax Cost Computed at 1954 Tax Rates	$ 20,881.00	$ 23,323.00	$ 23,926.00	$ 85,834.51	$ 28,116.00
Cash Receipts and Disbursements					
Cash Receipts	$139,8[illegible]	$161,004.69	$187,196.55	$314,[illegible].26	[illegible] 249.16
Cash Disbursements					
Operating Expenses Per Partnership Return Reduced by Depreciation	$101,303.94	$118,589.54	$130,133.53	$215,383.68	$[illegible]86
Partners Salaries	14,653.33	14,266.67	14,560.00	14,560.00	14,560.00
Escrow Fund Payments to Arthur Murray	7,181.50	8,025.76	3,297.96	4,696.86	[illegible]5.02
Acquisition of Fixed Assets	965.83	8,568.14	6,335.04	16,841.70	21,[illegible]
Income Tax Costs—(Per Above)	20,881.00	23,323.00	23,926.00	85,834.51	28,11[illegible]
Total Disbursements	$ 44,985.60	$172,773.11	$178,352.53	$337,316.75	$ 7[illegible]
Balance (Deficit)	($ 5,121.14)	($ 11,768.42)	$ 8,844.02	$ 22,632.40	$ 15,418.[illegible]
Accumulative Cash Deficit	($ 5,121.14)	($ 16,889.56)	($ 8,045.54)	($ 30,678.03)	($ 15,259.[illegible])

fol. 169

PETITIONER'S EXHIBIT

[fol. 170] Mr. McCormick: Subject to our reservations.

The Court: I understand when we reconvene you may state your objection to any of these exhibits that are now being received and the Court will consider them at that time.

Mr. Bauersfeld: I ask that this be marked as Petitioner's Exhibit for identification No. 29.

The Court: It will be marked for identification as Petitioner's Exhibit No. 29.

(The schedule referred to was marked as Petitioner's Exhibit No. 29, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 29 and ask you to identify it, please.

A. This is a schedule I prepared reflecting items of income comprising the closing income reported on the partnership tax returns. In other words, for each of the fiscal years March 31, 1950 through March 31, 1954 it's merely a classification and breakdown of the income items on the partnership return.

The Court: It does represent the income that the partnership returned in those particular years?

The Witness: Yes, sir.

The Court: You have broken it down?

The Witness: That's right.

The Court: All right, it will be received as Petitioner's Exhibit No. 29.

(The schedule referred to, heretofore marked as Petitioner's Exhibit No. 29, for identification, was received in evidence as Petitioner's Exhibit No. 29.)

fol. 171

Schedule Reflecting Items of Income Comprising Gross Income Reported on Partnership Tax Returns.

Arthur Murray Dance Studio—A Partnership.

	Fiscal Years Ended				
	March 31, 1950	March 31, 1951	March 31, 1952	March 31, 1953	March 31, 1954
Items of Gross Income					
Earned Income From Teaching of Dance Lessons	$119,585.14	$136,596.74	$143,949.63	$243,277.46	$325,266.97
Gain Received From Cancellation of Inactive Courses	5,376.93	9,997.44	26,861.40	19,483.36	28,448.61
Income Received From Other Arthur Murray Dance Studios on Transfer Hours				1,065.75	2,020.57
Income Received From Contests Derby Fees & Prizes				820.00	3,030.79
Income Received From Advertising Rebate	623.37			1,441.98	2,639.45
Income Received From Budget Plan Interest, etc.	760.90	882.69	4,041.21	8,098.50	8,722.86
Income Received From Investments					574.24
Miscellaneous Income	14.00	91.32			
Income Received From Special Class Course		994			
	$126,360.34	$148,563.16	$174,852.24	$274,187.05	$370,702.89

Petitioner's Exhibit 29

[fol. 172] Mr. Bauersfeld: I ask that this be marked Petitioner's Exhibit for identification No. 30.

The Court: It will be marked for identification as Petitioner's Exhibit No. 30.

(The schedule referred to was marked as Petitioner's Exhibit No. 30, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 30 and ask you to identify it, please.

A. This is a schedule I prepared reflecting the aging of deferred income balances at the end of each fiscal year by year of sale for each of the fiscal years ended March 31, 1951 through March 31, 1954. This classification or this aging of deferred income balances is based on the total contract deferred income less the students' accounts receivable thereon. In other words, for the year ended March 31, 1954, the total amount of deferred income in receivables amounted to $163,563.20, of which the sum of $34,860.21 was sold prior to the beginning of the year. In other words, the amount sold prior to the beginning of the fiscal year represented 21.3 percent of total income outstanding at the end of the year so most of the deferred income does represent the current year's sales. The amount that was previous to the beginning of each year for each one of these fiscal years is 19.7 percent for the year 1951 and 19.6 percent for the year ended March 31, 1952 and 13.7 percent for the year ended March 31, 1953.

The Court: All right, it will be received as Petitioner's Exhibit No. 30, subject to the right of respondent to object later, if he sees fit.

(The schedule referred to, heretofore marked as Petitioner's Exhibit No. 30, for identification, was received in evidence as Petitioner's Exhibit No. 30.)

[fol. 173]

Petitioner's Exhibit 30

Schedule Reflecting Aging of Deferred Income Balances at End of Each Fiscal Year by Year of Sale

Arthur Murray Dance Studio—A Partnership

	For the Fiscal Year Ended			
	March 31 1951	March 31 1952	March 31 [illegible]	March [illegible] 1954
Period of Sale				
March	$ [illegible] 206.23	$ 4,55[illegible]	$ [illegible]	$ [illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	14,206.18	[illegible]
December, November, October & September	[illegible]	[illegible]	[illegible]	[illegible]
August July June, May and April	[illegible]	[illegible]	[illegible]	[illegible]
Previous to Beginning of Each Year	[illegible]	[illegible]	[illegible]	[illegible]
Total Contract Deferred Income Less Balance of Students Accounts Receivable	$ [illegible]	$ [illegible]	$149,244.[illegible]	$[illegible]
Less Reserve Fund (Restricted as to Withdrawals)	[illegible]	[illegible]	[illegible] 47.61	[illegible]
Net Cash Balance of Deferred Income	$ [illegible]	$ [illegible]	$111,496.[illegible]	$[illegible]
Percent of Deferred Income Balance Sold Prior to Beginning of Each Year To Total Deferred Income at End of Year	[illegible]	[illegible]	[illegible]	[illegible]

Mr. Bauersfeld: May this be marked as Petitioner's Exhibit No. 31.

The Court: It will be marked for identification as Petitioner's Exhibit No. 31.

(The schedule referred to was marked as Petitioner's Exhibit No. 31, for identification.)

By Mr. Bauersfeld:

Q. I hand you Petitioner's Exhibit No. 31 and ask you to identify it, please.

A. This is a schedule I prepared reflecting the effect of different accounting methods on net taxable income as between the contract executed basis and the accrual basis

(fol. 174) I beg your pardon, that is for each fiscal year from March 31, 1950 through March 31, 1954. The upper half of this exhibit refers to the contract executed basis wherein the taxable income was computed for each of those years, and I'd like to call your attention particularly to the year ended March 31, 1953 as compared to the year ended March 31, 1954. It shows that although sales increased from $430,293.65 to $452,040.70, or a five percent increase in sales, that the net profit for the year ended March 31, 1954, was only 45 percent of the profit in 1953. This is on the contract executed basis. Now, going down to the accrual basis, which is the lower half of the schedule the gross income is comprised of earned income and gain on cancellations, it shows the gross income increased 31.6 percent for the year ended March 31, 1954 over March 31, 1953, and that the net profit on that basis increased 23.3 percent. In other words, on the contract executed basis for these two years it shows an absolute distortion of income with the lack of cost being properly matched against the income and the effect of practically no provision for costs incurred to produce that income, whereas under the accrual basis expense does exist and they are more in line.

Q. Will you explain the bad debts on that schedule?

A. The bad debts are those amounts that are actually charged off as uncollectible on the books of account. When the Commissioner picks up just the net increase in deferred income he is in effect saying that sales represent gross income but we will allow you this bad debt deduction. That's what this statement shows.

Mr. Banetsfeld: I offer the document in evidence.

The Court: It will be received in evidence as Petitioner's Exhibit No. 31.

(The schedule referred to, heretofore marked as Petitioner's Exhibit No. 31, for identification, was received in evidence as Petitioner's Exhibit No. 31.)

Schedule Reflecting Effect of Different Accounting Methods on Net Taxable Income as Between Contract Executed Basis and Accrual Basis.

Arthur Murray Dance Studio A Partnership

	Fiscal Years Ended				
	March 31 1950	March 31 1951	March 31 1952	March 31 1953	[illegible]
Contract—Executed Basis					
Gross Income—Sales	$185,933.50	$209,[illegible]	[illegible]	[illegible]293.65	[illegible]
Operating Expenses					
Expenses Per Partnership Return	$106,543.90	$123,[illegible]	$137,267.9[illegible]	[illegible]	[illegible]
Bad Debts	26,203.60	28,[illegible]	[illegible]	62,734.42	[illegible]
Total Operating Expenses	$132,747.50	$152,28[illegible]	$177,251.3[illegible]	$286,125.1[illegible]	[illegible],126.9[illegible]
Net Taxable Income	$ 53,186.00	$ 57,172.[illegible]	$ 58,545.[illegible]	$144,168.[illegible]	[illegible]
% of Expenses Per Partnership Return to Gross Income	57.3%	58.9%	58.[illegible]	[illegible]	[illegible]
% of Bad Debts to Gross Income	14.1%	13.8%	[illegible]	[illegible]	[illegible]
% of Taxable Income to Gross Income	28.6%	27.3%	24.[illegible]	[illegible]	[illegible]
% of Sales to Sales of Previous Year		112.6%	112.[illegible]	[illegible]	[illegible]
% of Taxable Income to Taxable Income of Previous Year		107.[illegible]	[illegible]	247.[illegible]	[illegible]
Accrual Basis					
Gross Income (Comprised of Earned and Gain on Cancellations)	$121,582.07	$146,534.18	$176,811.[illegible]	$262,[illegible]	[illegible]
Operating Expenses—Per Return	106,543.90	123,351.31	137,267.91	22[illegible]	[illegible]
Net Taxable Income	$ 18,418.17	$ 23,242.87	$ 33,543.[illegible]	[illegible]	$ [illegible]
% of Operating Expenses to Gross Income	85.3%	84.1[illegible]	[illegible]	[illegible]	[illegible]
% of Taxable Income to Gross Income	14.7%	15.[illegible]	[illegible]	[illegible]	[illegible]
% of Gross Income to Gross Income of Previous Year		112.3[illegible]	116.5%	[illegible]	121.[illegible]
% of Taxable Income to Taxable Income of Previous Year		126.[illegible]	144.[illegible]	[illegible]	[illegible]

[fol. 176] Mr. Bauersfeld: Will you indulge me just a moment, Your Honor?

The Court: Yes, sir. Off the record.

(Discussion off the record.)

The Court: On the record.

By Mr. Bauersfeld:

Q. Supposing a student enters into a contract with the partnership here involved but is transferred to another city, for example Denver, Colorado, where there is, I understand, another Arthur Murray Dance Studio. Can he make arrangements to complete his contract at the latter?

A. Yes, sir, the Denver Studio would complete the course for him.

Q. What are the financial arrangements between Studios in that event?

A. The Denver Studio would bill the Omaha Studio for so much money for teaching out these lessons on that particular transfer student and then the Omaha Studio would write a check for that amount so billed.

Mr. Bauersfeld: That's all. The witness is submitted for cross examination.

The Court: We'll now recess until two o'clock.

(Whereupon, at 12 noon, a recess was taken until 2:00 p. m. of the same day.)

Afternoon Session 2:00 p. m.

The Court: All right, you can resume the stand now. I believe you had finished?

Mr. Bauersfeld: Yes, Your Honor.

The Court: You may then proceed, Mr. McCormick.

ROBERT J. DAVIS resumed his testimony as follows:

Cross examination.

By Mr. McCormick:

Q. Mr. Davis, you testified that certain notes were taken to the bank, notes such as Exhibit No. 21-U, which is at-
fol. 177 tached to the Stipulation of Facts. Now, when the Studio, the partnership did that, did take such a note as that to the bank they would endorse the note on the back, would they not?

A. It was endorsed with complete recourse.

Q. I see. When you testified with respect to the reserve that the bank sets up on a note which is taken to the bank you stated that the note was not or the reserve was not available for use. You meant only until or not available to use until the note was fully paid, did you not?

A. That's right, in other words, the student had to make the final payment on the contract before the reserve funds on that particular contract would be released.

Q. There was only one general partnership bank account, was there not?

A. There actually were several bank accounts but they were all general in nature.

Q. One of those was in the First National Bank of Omaha, is that right?

A. Yes, sir, that's right.

Q. And cash collections from students and from the Bank from discounted notes and from the Bank from reserve funds after the notes were fully paid were either deposited or credited to this partnership general bank account or one of the partnership general bank accounts, is that not correct?

A. If I understand your question correctly I believe your statement is correct. In other words, the proceeds from the notes when they were originally transferred to the Bank and also at the end of the note's life, when the student had paid it up, were those funds transferred to the partnership general bank account?

Q. Yes.

A. Yes, sir, they were.

Q. Those bank accounts were used to pay the expenses of the partnership?

A. Yes, sir.

Q. The Bank did not restrict in any way the use of these funds in the general bank account?

A. Not in the general bank account, no.

Q. What was the royalty percentage agreement with Arthur Murray of New York?

A. The royalty percentage varied in rate according to the particular Studio. For Omaha the rate was 10 percent and was applied to the gross receipts received by the Studio.

[fol. 178] Q. Not the total sales?

A. Oh, no, sir. The royalty was applied to the actual money that went into the partnership's general bank accounts. That's what they paid royalty on.

Q. How about on the reserve?

A. No, sir, there was no royalty paid on the reserve fund until it was taken out of reserve fund and went into the general bank account.

Q. When was this paid, this percentage royalty paid to Arthur Murray of New York?

A. Every week.

Q. That was deducted on the return of the year in which paid?

A. Yes, sir.

Q. Now, what was the commission arrangement with sales personnel for selling lessons?

A. Well, that varied to a considerable extent. The general commission arrangement, for instance on a deferred payment plan that went through on the first half of the deferred payment plan. In other words on the first 50 percent the Studio received from the Bank there would be a commission paid on the first 50 percent and then when the note had matured and the money was taken out of the reserve fund and transferred to the general bank account then the commission was also paid on that portion of it at that time. In addition to that, the commissions were on somewhat of a continuing basis. In other words, if a sales person sold a course say for $500.00 cash then they

would be paid on the basis of perhaps \$1000 a week perhaps for the next four or five weeks on that sale.

Q. Now, as I understand you, 50 percent was received from the Bank, that 50 percent of the commission due would be paid at that time.

A. That's right, 50 percent of the total commission would be paid at that time.

Q. That would be deducted on the return for the year in which paid?

A. That's correct.

Q. I'd like to show you what we have stipulated as Exhibit No. 14 N, which I think you are familiar with as having helped in the preparation thereof and I'd like for you just to clarify the fact that the items here described as deferred income collected, in the last two items on the schedule, means deferred income cash collections, if that is true?

A. There are two tabulations here under the general fol. 179 heading of deferred income collected. The first tabulation on deferred income collected is on the assumption, in other words the words are "considering reserve fund held by Bank as collected". I believe that is the Commissioner's part on this schedule, that they are assuming that the cash is collected on the reserve fund. The bottom half of the schedule "deferred income collected considering reserve fund held by Bank as not collected until funds are released and made available for withdrawal by Bank". The difference between the two, of course, represents the reserve fund held by the Bank.

Q. Yes. I just wanted for you to show clearly that the word "cash collections" is what is meant in both of the items.

A. On the two different questions that are involved, that is right.

Q. Yes, sir. You testified that the Studio was required to give parties. Was that to encourage sales and to help in the sales program?

A. That would have nothing to do with obtaining sales, no, sir. That's the obligation of the Studio to give those parties to the students that they have already enrolled, that are their present customers.

Q. Would the total amount of those expenses for giving those parties be deducted in the year in which they were paid?

A. Yes, sir.

Q. You testified with regard to transferring a certain amount to earned income as lessons were given. How did you determine exactly how much to transfer?

A. On the basis of the actual number of hours taught on each particular course.

Q. How did you determine the exact amount?

A. By multiplying the rate per hour in each course times the hours involved in that particular course, each course. Of course, some courses are at different rates per hour. As I said before, they range from five hours up to 1,000 hours and better so each course has a different hourly rate attached to it so we determine the actual earned income on each course for that particular fiscal year.

Q. You mentioned that the refunds were made to students. What was the exact amount of those refunds in the years ended March 31, 1950, 1952, 1953 and 1954? [fol. 180] A. I don't know.

Q. Isn't it true, Mr. Davis, in fact that the partnership discouraged refunds?

A. That is true.

Q. Isn't the amount of the refunds given, isn't that shown in the books?

A. Yes, sir.

Q. Do you have the books here in which you could show us?

A. The books are in the courtroom, yes, sir.

Q. Could you show us them from the books?

A. We could dig it out. They happen every year. It would be a matter of picking out the months and so forth those refunds were made.

Mr. McCormick: If the Court would permit the time, I think that would be important.

The Court: Well, Mr. McCormick, I think if they are not in certain accounts so that they can easily be identified that might be a very troublesome procedure. If you have

for example, let us say—I believe the first fiscal year was the fiscal year of 1950, was it?

The Witness: Yes, sir.

The Court: If you have an account on the books for that year that shows in detail the [illegible], I think that wouldn't be very troublesome to get an explanation how it was done. Do you have any such account?

The Witness: No, sir, there is no account in the book headed "refunds". We'd have to go through the check register and dig out the checks.

The Court: You had no account you carried on the books so when a refund was made you would record it in a certain account?

The Witness: The refunds were generally, I'd say, charged to deferred income.

The Court: For which

The Witness: there is an account in the books.

The Court: I didn't quite understand.

The Witness: I said the refunds were charged generally to an account headed deferred income.

The Court: Yes. There again you would have to search them out, I suppose.

fol. 181 The Witness: Pretty much so, yes, sir.

The Court: How were they figured on the income tax return? I suppose on that deferred income?

The Witness: Gain on cancellations was determined after that refund in considering the unpaid balance, of course, and the unearned portion of the contract. Gain on cancellations was computed and reported on courses cancelled.

The Court: What counsel is now asking would probably be rather difficult matter to answer. As I understand it, in effect what he is asking you is for the first fiscal year, your question is, Mr. McCormick, how much refunds were made in that fiscal year?

Mr. McCormick: Yes, sir.

The Court: In order to answer that you say you would have to go through the [illegible] disbursements books?

The Witness: Yes, sir, I'd have to go through the books. Since it didn't actually have any bearing on the account

ing method employed by the taxpayer there wasn't any particular segregation.

The Court: Yes.

By Mr. McCormick:

Q. Well, if you had refunds to students, Mr. Davis, why would it be necessary to have a gain on cancellations?

A. Well, maybe the entire amount was not refunded.

Q. Mr. Davis, these are the partnership returns for the years involved here which contain on the back of them net worth balance sheet statements?

A. Yes, sir.

Q. The figures therein seem to conflict with the figures in this net worth statement that you have submitted here as Exhibit No. 25. I was wondering if you could reconcile the differences there?

A. What particular figures are different that you want a clarification of? We know the cash is different because of the partners' personal bank accounts which were used in the preparation of Exhibit No. 25. Are you referring to the deferred income?

[fol. 182] Q. Yes, that's one thing. One of the figures I'm referring to is the deferred income.

A. The deferred income on Exhibit No. 25 is stated in the amount of cash received by the taxpayer. In other words, the deferred income shown on Exhibit No. 25 does not include the accounts receivable. In it is included only the actual amount received by the Stu[illegible]. This is the amount paid on deferred income pe[illegible] that is shown on Exhibit No. 25 whereas the deferred income shown on the partnership tax returns is the contract price.

Q. I have here the partnership returns for the year ended March 31, 1951, which is Exhibit No. 5-C. The balance sheet on this return shows cash at the beginning of the year of $21,926.96 and the end of the year is $28,106.78. Now Exhibit No. 25 shows cash at the end of the year of $46,744.14.

A. That is correct. I have stated before we took into consideration the partners' personal bank accounts as of the end of the fiscal year in the preparation of Exhibit No. 25.

Q. And that is true with respect to all years?

A. That is correct.

Q. I hand you what has been marked as Petitioner's Ex-hibit No. 26. You will notice that the middle column there is entitled "gross income accrual basis". Does that in-clude the amounts in the reserve fund?

A. No, sir. If I may clarify that, it includes the amounts from the reserve fund when they are released and made available and transferred to the general bank accounts.

Q. Mr. Davis, I hand you what has been marked as Peti-tioner's Exhibit No. 29. There is an item on this exhibit entitled cash receipts and disbursements. Cash receipts, does that item include the reserve fund in the bank at the end of the year?

A. No, sir.

Q. Mr. Davis, I show you Petitioner's Exhibit No. 31 and there are two principal headings on that exhibit, one is "contract executed basis" and the other "accrual basis". Just for clarification the first subject, "contract executed basis", by that you mean in effect the Commissioner's con-ception of the accrual method basis that should be em-ployed here?

A. It is the Commissioner's method, yes, sir.

Q. His idea also of the accrual basis, the Commissioner's conception of the accrual basis?

fol. 183 A: Yes, and of course you think of only one method as being the true accrual method of accounting. I don't know what the conception of the Commissioner is on this contract executed basis.

Q. That is what you are attempting to show?

A. I am showing the basis on which the Commissioner is assessing these deficiencies which they are taking into consideration in the year the contract, when the contract is signed, but I would not refer to it as the accrual basis of accounting.

Q. It has been agreed in this case in the pleadings that the petitioner is on the accrual basis of accounting?

A. That is correct.

Q. And that the Commissioner is not disputing that?

A. I understand they are not disputing that the method is on the accrual basis of accounting.

Q. You were merely attempting to show what the Commissioner has done?

A. I am showing the Commissioner's method of arriving at the tax deficiencies, yes, sir.

Q. You testified with regard to payments made to other Studios in other localities to cover lessons of students who had transferred to another locality and some other Studio had instructed the lessons that had originally been contracted for in Omaha or one of the branch offices?

A. Yes, sir.

Q. In the years involved here—1950, 1952, 1953 and 1954—what was the exact amount of those payments made to other Studios?

A. Well, I don't have the figures here in front of me. I couldn't recall them.

Q. Do you have the figures in your books?

A. Yes, sir.

Q. Are those books in the courtroom?

A. Yes, sir.

Q. Could you show us, do you have an account that would show us?

A. I believe that could be shown for each particular Studio.

Mr. McCormick: Well, again, if the Court please, I think that would be a helpful item to be shown.

The Court: Well, if Mr. Davis can by referring to his books answer that question without too much searching of the books, it will be all right.

[fol. 184] The Witness: I believe I can find the information all right. I don't know how long it will take but I can find it in the books all right.

The Court: What the Court is anxious to do, of course, is to enable you to answer the injury. We would know readily you had five Studios, didn't you?

The Witness: Yes, sir.

The Court: You had an account with each one and each one would show the amount of refunds in some separate account. I don't think it would be hard to find but if it is in a cash disbursements, it might be difficult.

The Witness: I think we have an account headed "refunds for hours." I think we can turn to for each year that may be requested.

The Court: Do you want to take a recess for about 10 minutes so that the witness can see if he can assemble that data?

Mr. McCormick: Yes, sir, and at this time I'd like to then offer no objection to the exhibits that were submitted this morning.

Mr. Bauersfeld: If the Court please, would this be a suggestion to save time, we will agree on having, after this trial, Mr. Davis make a schedule which will show this information and verify it with the agent and put it in the record so we can go on.

Mr. McCormick: Yes, that will be all right.

The Court: All right. We will agree Mr. Davis will compile this and let the revenue agent check it at his leisure and file it.

Mr. McCormick: May that ruling also apply to the refunds as well as payments to other Studios?

The Court: I understand the refunds can be ascertained, perhaps not so quickly.

Mr. McCormick: If the Court please, I don't want to hold the record open forever for putting in exhibits. I will agree on this one which can be readily obtained, but it will take considerable time during Mr. Davis' busy fol. 180 period of making out tax returns and I would object to that.

The Court: I don't see just what the advantage of it would be anyhow. What effect does it have on the tax liability—that's the important thing—in these years?

Mr. McCormick: Well, it shows merely that they had this money which they were going to keep for the most part, the cash collections.

The Court: As I understand it, they had certain—

Mr. McCormick: It is not going to be returned.

The Court: —contracts. I understood this morning that really the contracts said they were not to make any refunds but as a matter of fact they did make refunds and I assume whenever they made a refund that a deduction of some kind was made on them.

Mr. McCormick: Well, maybe we could agree then to withdraw or strike out the portion of the testimony that said that refunds were made unless we can determine the exact amount.

The Court: I imagine the Commissioner had ample time, himself and his agents, to examine those books very thoroughly.

Mr. McCormick: Well, sir, as I said, the contracts, of course, say no refunds.

The Court: What do you say?

Mr. McCormick: The contracts say no refunds.

The Court: The Court has no desire to keep out any evidence that might throw any light on the case. Now, you have agreed on the question of paying some other Studios for filling out contracts. Mr. Davis is going to get that information for you to be filed as a schedule. Now, what you would like to have is another schedule that would show the refunds. The Petitioner's objection to that is not so much to the evidence as that it will be difficult to assemble that information. They don't want to take the time. Maybe your agent could take the books and go through them and have it verified. Do you want to do that?

[fol. 186] Mr. McCormick: Yes, sir.

Mr. Bauersfeld: Of course, Mr. Davis would have to spend the time to do it to see it was correct if the agent did it or Mr. Davis did it.

The Court: The Court is not disposed, as I say, to keep out any relevant evidence but I don't see how at this stage without the evidence being obtainable without Mr. Davis going through the books in detail. I don't think that requirement should be made of him at this time. I don't know what effect it would have on the tax liability. At the present moment I don't think it would have any. Well, as I understand it, now, you are to later file as a schedule information that will show the amount paid to these other Studios for carrying out contracts with another one. You may proceed, Mr. McCormick. The answer of the witness, as I understand it, to your general question is can he tell how much was refunded to students in these fiscal years and his answer is he doesn't have any account which shows

that, that he would have to go through the cash disbursements and check and ferret it out. That couldn't be done without considerable delay of the trial.

By Mr. McCormick:

Q. As to the amounts of deferred income at the end of a particular year, Mr. Davis, isn't it true that most of the lessons which that represents will be taught within say the next 12 months?

A. Of the amount deferred at the end of any particular year, isn't that true that most of that would be taught out within the next 12 months?

Q. Yes.

A. That is correct.

Q. Now, as to arrangements with students for lessons and times, students were permitted to call up the Studio and arrange for their dates for taking their lessons, isn't that true?

A. Do you mean were the lessons made by appointment?

Q. Yes, by appointment, the time.

A. Yes, sir, they were scheduled.

Q. Schedule a lesson from time to time, say from lesson to lesson they could call up and make arrangements to take their lesson. If they took a lesson today, as far as [fol. 187] next week is concerned they could call up during the next week and arrange to take a lesson say on Thursday of next week?

A. I think it was a little bit more routine than that. When a student took a lesson on a particular day, the teacher generally schedules his next lesson before he leaves.

Q. Yes, but they would schedule it at that time. It wasn't any fixed schedule when they contracted with a student for a certain lesson on a certain day at a certain hour in the next year which the student had to abide by, was it?

A. No, sir.

Q. How long did you testify you had practiced accounting, Mr. Davis?

A. About 13 years.

Q. Excuse me, 13 years?

A. Yes.

Q. When did you receive your degree?

A. In 1948.

Q. When did you set up the books for this Studio?

A. In 1946, when I was associated with the Irwin [illegible] Company, certified public accountants.

Q. When did you receive your certified public accountant rating?

A. In 1948.

Q. In 1948?

A. Yes.

Q. So that you were not certified at the time you set up this method of accounting for this Studio?

A. No, sir. That is correct.

Mr. McCormick: I believe that's all.

The Court: Have you anything else, Mr. Bauersfeld?

Mr. Bauersfeld: Will you indulge me just a moment, please, sir?

The Court: All right.

Mr. Bauersfeld: No further questions.

The Court: All right, Mr. Davis; you're excused.

(Witness excused.)

Mr. Bauersfeld: May we call the next witness?

The Court: Yes, sir, you may.

Mr. Bauersfeld: Mr. Cole.

[fol. 188] Whereupon, DANA F. COLE, called as a witness for and on behalf of the Petitioner, having been first duly sworn, was examined and testified as follows:

Direct examination.

The Clerk: State your name and your address, please.

The Witness: Dana F. Cole, 425 Stuart Building, Lincoln, Nebraska.

The Clerk: Spell your name, please, sir.

The Witness: D-a-n-a F. C-o-l-e.

The Clerk: Thank you.

By Mr. Bauersfeld:

Q. What is your profession, Mr. Cole?

A. I'm a college teacher and practicing public accountant.

Q. Where is your public accounting business located?

A. Our office is at Lincoln, Nebraska.

Q. And how long have you practiced public accounting?

A. Oh, 42 or 43 years.

Q. What is the name of your firm?

A. Dana F. Cole & Company.

Q. How many people are in your organization?

A. Oh, it ranges from 15 to 20.

Q. And what territory does your practice cover?

A. Well, it covers the practice around the Lincoln area, which is in Nebraska, northern parts of Kansas, eastern Colorado and Wyoming, western part of Iowa, it goes into Illinois and Missouri.

Q. What has been your experience in public accounting?

A. Well, I've been in general practice of public accounting since 1915, I guess, doing every type of work a public accountant might be called on to do.

Q. Where do you teach?

A. University of Nebraska.

Q. And what subjects do you teach?

A. At the present time I am teaching advanced cost accounting and income tax accounting in both introductory and advanced courses.

[fol. 189] Q. How long have you taught at the University of Nebraska?

A. I started teaching in February of 1915.

Q. What is your title at the University?

A. Professor of accounting.

Q. What subjects have you taught since 1915?

A. I have taught all the principal courses, principles of accounting, principles of cost accounting, advanced cost accounting, tax courses, which are income tax, estate taxes, gift taxes, Social Security taxes. For a while I taught the marketing courses in the field of salesmanship, marketing, advertising.

Q. Have you written any books?

A. Yes.

Q. What is the name of it?

A. Several preliminary books I wrote prior to the publication of a textbook referred to as Beginning Accounting, which was published in 1940.

Q. Where is this book used?

A. It was used in several schools and colleges throughout the country.

Q. Was it used at the University of Nebraska?

A. Yes, it was.

Q. Of what professional societies are you a member?

A. The American Accounting Association, the National Association of Accountants, American Association of University Professors, the Interprofessional Institute.

Q. What is your educational background?

A. I took my first degree at the University of Nebraska, A. B. degree, in February of 1915. At the same time thereafter I started to teach accounting and went on to take my Masters Degree in June of 1916, then went on to Columbia University to continue my advanced courses, but I never did go on and take any further degrees.

Q. Have you ever testified in court as an expert accounting witness before?

A. Yes.

Q. In what court have you testified?

A. In this Court, the Tax Court, the local Federal Courts, Nebraska Courts and the Federal District Court.

Q. Have you examined the books of the partnership, Arthur Murray Dance Studio?

A. Yes, I haven't audited them but I have examined them, looked at them, I never made an audit of them.

Q. Have you read the Stipulation of Facts and the exhibits attached thereto in this case?

A. Yes.

[fol. 190] Q. Have you seen the other exhibits introduced in evidence?

A. Yes.

Q. Have you been in the courtroom and heard the evidence given so far in this case?

A. Yes.

Q. What other information would you need in order to form an opinion as to whether the books and records of

a partnership are maintained under generally accepted and sound accounting principles?

A. I think none other than what I have seen.

Q. In your opinion, are the books and records of the partnership maintained in accordance with generally accepted and sound accounting principles?

A. Yes, I think they are.

Q. Specifically, with reference to the item known as deferred income on the books, has this item been handled in accordance with generally accepted and sound accounting principles?

A. Yes, it has.

Q. Why, in your opinion, has this item known as deferred income been handled in accordance with generally accepted and sound accounting principles?

A. Well, it's certainly improper to take into income any item of income until it's earned and wrong to take in theoretical records of income or statistical records of income until that income has actually been produced and I think that is the way these books have been kept. They do record income as it is earned and not until it's earned. These books, while they have reflected a memorandum of agreement to do certain things, they have not recorded any income earned by those agreements. They have recorded a memorandum that they have perhaps created a liability but they haven't recorded any record of the fact they have earned any income at the time the contracts were entered into so I don't think there is any income in those recorded receivables at the time they are recorded and there is no income there until the studio has delivered the service they contracted to give, and for that reason I think that there is no income there until the Studio earned it and I think they have been accurately recorded as the income was earned at the time it was earned.

Q. In other words, you feel that the method of accounting employed by the partnership properly reflects its true income?

A. Yes, I do.

Q. Is the account receivables that are reflected at the [fol. 191] time the contract is entered into a true account receivable in the accrual accounting concept?

A. No, it isn't.

Q. Will you explain that?

A. All it is is a memorandum of agreement to do certain things. They record the contract that they are going to agree to deliver certain services in the future, having delivered none whatsoever at the time it is recorded on the records and it is only a memorandum of a certain type of agreement that has been entered into, and that is all you can say about the account. Actually a true account receivable is entered after the service has been rendered and not before. The ordinary concept of an account receivable or note receivable is when a firm accepts payment in that fashion for a service that has been rendered and not what they intend to do at some time in the future.

Q. Does the adjustment made to deferred income by the Commissioner result in a determination of true income of the partnership?

Mr. McCormick: In your opinion.

By Mr. Bauersfeld:

Q. In your opinion.

A. I think it doesn't.

Q. Will you explain why not?

A. Because it brings into income a record of income before any of it has been produced, at least before all of it has been produced, that, while there are some cases where cash may have been collected at the time of the record made that cash that is on hand is not true and in fact is a trust fund that is on hand in this account and which they are duty bound to spend in the rendering of that future service and accountants would look at it as a true trust fund that has to be kept on hand. It reflects a liability in income on this concern to spend funds and perform in the future.

Q. Now, as a practicing public accountant could you — would you certify to a financial statement prepared under the Commissioner's method of determining income?

A. I certainly would not.

Q. And why would you not?

A. I think if an accountant would certify that these so called items of deferred income represent net worth he would be making a false report to the banks or others |fol. 192| concerning their financial liability to carry on. If it's net worth it's ther to be drawn out. If it's a corpora tion it's in its dividends or if it's a partnership it's mere representing funds that may be drawn out for personal use and it would be a violation of their liabilities and con tractual relations to their customers if that were true and it would misinform the bank concerning their ability to carry on as a growin concern and perform their business daily transacted or required to be carried on by them and I think no accountant would certify to the accuracy of a statement that did not contain these items as deferred in come, either subtracted from the assets or as an inclusion in the liabilities.

Q. Would you certify to a financial statement with some qualification that was prepared under the Commissioner's method of determination?

A. No, sir, I would not. We don't prepare certified state ments with qualifications.

Mr. Bauersfeld: You may inquire.

The Court: Cross-examine.

Cross examination.

By Mr. McCormick:

Q. Mr. Cole, are you a certified public accountant?

A. No, sir.

Q. You spoke of your opinion about these funds being a trust fund, are you a lawyer?

A. No, sir.

Q. With respect to your many long years of teaching, Mr. Cole, would you say that you have been pretty suc cessful in your teaching?

A. Oh, yes.

Q. Without bragging too much.

A. I see several of my students sitting around here. They seem to be doing pretty well, and at least I've stayed with it for quite a while.

Q. Are you familiar with the fact one of the students you just referred to has been doing pretty well in the accounting field, who set up this case for the Government?

A. I always considered Mr. Berry one of my very good students. We didn't always agree, but he was a good student.

Q. In your teaching you recognize and you mentioned you teach tax accounting?

A. Yes.

[fol. 193] Q. You recognize there are many differences in tax accounting and commercial accounting?

A. Yes, I do. There are a good many places where they differ.

Mr. McCormick: I believe that's all.

Redirect examination.

By Mr. Bauersfeld:

Q. Mr. Cole, did you ever take the certified public accountant examinations?

A. No, I never did.

Mr. Bauersfeld: No further questions.

The Court: All right, Mr. Cole. Thank you, Sir.

(Witness excused.)

Mr. Bauersfeld: May Mr. Cole be excused, Your Honor?

The Court: Yes, he may be excused.

Mr. Bauersfeld: I will call Mr. Miller.

Whereupon, James D. Miller, called as a witness for and on behalf of the Petitioners, having been first duly sworn, was examined and testified as follows:

Direct examination.

The Clerk: Would you be seated and state your name and your address, please.

The Witness: James D. Miller, Bronxville, New York.

By Mr. Bauersfeld:

Q. Mr. Miller, what is your occupation?

A. I am a certified public accountant.

Q. How long have you been a practicing public accountant?

A. About 37 years.

Q. What is the name of your firm?

A. James D. Miller & Company.

Q. How many people are employed by your firm?

A. Well, it varies from year to year and in the course of the year it will range from 20 to 50.

[fol. 194] Q. What territory does your practice encompass?

A. Our offices are located in New York City. However, our work takes us all over the country and into some foreign countries.

Q. Have you ever performed any professional services for the United States Government?

A. Yes, I have.

Q. Will you tell us what they were?

A. During World War II we audited a portion of the President's unvouchered funds; we were also retained by the Office of Strategic Services to do all of the accounting work in connection with the renegotiation of War contracts, contract termination and cost-plus contracts and price redetermination.

Q. Now, over the period of years what has been the nature of your accounting practice?

A. Well, we have done all kinds of accounting practice, that is all types of accounting services that a certified public accountant would in the ordinary course of events be called upon to do. However, we have specialized in tax practice and on special investigations.

Q. What is your educational background?

A. I graduated from a small country high school. From there I went to preparatory school by the name of Franklin Marshall Academy. After graduating there I went on to the University of Pennsylvania. After World War I I found I needed some accounting training in the job I had at that time so I went to night school and studied account-

ing in Pace & Pace Institute. After that I took special accounting courses at Columbia University, New York University, and City College of New York. That's all.

Q. Do you belong to any professional associations or societies?

A. Yes, I do.

Q. Which are they?

A. The New York State Society of Certified Public Accountants, the American Institute of Certified Public Accountants.

Q. Have you ever testified in court as an expert accounting witness?

A. Yes.

Q. Will you tell us the Court and the names of some of the cases in which you have been retained to testify?

A. We were retained a little over 20 years ago to do all of the accounting work and testify in the so-called Madison Anti-trust case at Madison, Wisconsin. In that case the [fol. 195] Government had brought an anti-trust action against all 22 major oil companies operating throughout the mid-western area of the United States. I testified in that case not only for the collective defendants but also for many of the individual oil companies. There were two Madison cases and we were also retained to do the accounting work and testify in the second Madison anti-trust suit. That was followed shortly after by an anti-trust action brought by the Government against all of the eight major oil companies operating on the Pacific Coast and also about 50 independent oil companies and we were retained to do all accounting work and testify in that anti-trust action.

The six major oil companies operating in the State of Wisconsin became defendants in a large triple-damage suit, conspiracy suit, and we were retained by them to do the accounting work in that suit and testify in that case.

In the anti-trust suit brought by the Government against the eight major motion-picture companies I testified in that suit.

We were also retained in other anti-trust actions. One was against the Corrugated & Solid Fiber Shipping Container Industry. We were retained to testify in the triple damage suit brought against Ford Motor Company by

Harry Ferguson, Inc., and others. That was a $350,000,000.00 action. We did accounting work for the Ford Motor Company in that case. We worked for the Ford Motor Company and testified, in other suits brought against them. For instance, the All-Tight Motor Products Co., Inc., brought a triple-damage suit against them for $10,000,000.00. We retained to testify in the triple-damage suits brought against the cigarette companies, the American Tobacco Company and Liggett & Myers. There was a $36,000,000.00 action brought against them by the Monticello Tobacco Company. I testified for the Pathe Film Company in an accounting suit against E. I. Dupont de Nemours. I testified in a triple-damage suit brought by the Interborough News Company against Curtis Publishing Company and seven other large magazine publishers. I testified for Borg-Warner Corporation in a case brought by them against the Government of the United States in the Court of Claims. I testified in quite a few accounting suits, for instance in connection with the dissolution of the theatrical firm of Klaw & Erlanger, also (fol. 196) in a suit arising out of the liquidation of a large export and import firm by the name of Crossman & Sielkes.

In another suit in Pittsburgh, brought by the Julian Kennedy Coal Industries against the Hellman Coal & Coke Company. I am testifying now in a suit in connection with the partition of the theatrical firm of Lee and J. J. Shubert. I testified before the Interstate Commerce Commission in connection with the merger of the Chesapeake & Ohio Railroad and the Pere Marquette Railroad.

We were retained to do accounting work and testify in the Bendix Aviation Corporation stockholders derive suit. We were retained in the anti-trust action in the Government conspiracy suit that was brought against the nine large manufacturers in the copper wire and cable industries. I was retained by various special prosecutors appointed under the Moreland Act in the State of New York in various investigations, one having to do with determining the costs and administration of the Workmen's Compensation Administration. I was retained to testify in the $20,000,000.00 damage suit by the receivers for the Paramount-Public Corporation against its former manage-

ment. I testified in an action brought by the Securities & Exchange Commission, against the former management of the Thermoid Company.

I have been retained to testify in a triple damage suit brought against the Western Auto Supply Company down in South Carolina. I testified in a large number of tax cases. I testified in a case involving the Hall-Scott Motor Car Company out in California, the Sylvania Industrial Corporation down in Virginia, the Welcome Wagon, Inc. down in Georgia and for some movie people out in California, such as Adolph Zukor, Jesse Lasky, and Harold Lloyd. I testified in Wilmington in another tax case for the American Bemberg Corporation and in Pittsburgh for the National Electric Products Corporation and out in South Bend, Indiana, for the C. G. Conn Band Instrument Company. There are some more but I don't recall them offhand.

Q. Well, I think that's enough, Mr. Mulez. That's a pretty good list. Have you examined the books of the partnership Arthur Murray Dance Studios which are here involved?

A. Yes, I have.

[fol. 197] Q. Have you read the Stipulation of Facts and the exhibits attached thereto?

A. Yes.

Q. And the other exhibits which have been introduced?

A. Yes.

Q. Have you been in the courtroom and heard the testimony given so far in this case?

A. Yes.

Q. What other information would you need in order to form an opinion as to whether the books and records of the partnership Arthur Murray Dance Studios are maintained under generally accepted and sound accounting principles?

A. None other.

Q. Now, in your opinion are the books and records of the partnership maintained in accordance with generally accepted and sound accounting principles?

A. Yes.

Q. Now, specifically with reference to the item on the books known as deferred income, has this item been handled in accordance with generally accepted and sound accounting principles?

A. Yes, it has.

Q. Why do you say that this item known as deferred income has been handled in accordance with generally accepted and sound accounting principles?

A. Well, it's important to recognize at the outset what it represents. It's the amount of lessons that have been contracted for but have been untaught at the end of the fiscal period. It represents what I consider merely a commitment or agreement on the part of the student to go through with his contract and to take those lessons at some future date. It has nothing to do with lessons that have already been taught. It has only to do with lessons yet to be taught. It's in a sense a backlog that these studios have for lessons to be taught in the future. The deferred income is represented by cash, that is cash advance payments on an executory contract to the extent that cash has been received, that there has been a deposit or it's backed up by receivables, merely memoranda receivables and in some cases there may have been a note which was discounted at the Bank. To the extent that it's offset in fact it's entirely offset by either cash or memoranda receivables, the receivables as this business was conducted apparently were not enforceable. There were very large cancellations. Cancellations amounted to in excess, over this five-year period, to 20 percent of the total sales. Now, that ratio would be much higher as to accounts receivable (fol. 198) or these memoranda receivables. I made a test over the five-year period and I found that the cancellations ran as high, they were equivalent to 65 percent of the accounts receivable or all receivables that were outstanding, and that statement applies to the beginning of each of these five fiscal years.

It is important to note, too, that there is no element of profit in this deferred income, this so-called deferred income. This is a liability reserve and while it's taken into account at the contract price of the sale, actually there is no element of profit in it because these Studios were teach

ing at cost, they were teaching at cost and charging the students simply what it cost them to render the tuition service. Their entire profit was limited to the income that was derived from cancellations and from transfers and a net interest earning, and small capital gains but the entire income of this enterprise throughout the five fiscal years is limited to just those elements. In other words, there was no operating profit at all in this business. In those years in question, at any rate, that is true.

Now, therefore, the entire balance in this deferred income account was simply a liability reserve. It would cost that much to render the service in a future fiscal period. Under those circumstances it was a proper accounting procedure to not take into account this deferred income into the profit-and-loss account until such time as the income was earned, that is when the teaching service was rendered and it would have been highly improper under an accrual method of accounting to take into account income without taking into account matching expenses. The proper accounting under accrual basis is to see that your expenses match your income and the expenses incurred by the teaching were to be rendered in a future fiscal period as far as all this deferred income was concerned. By the employment of this method used by this enterprise, income did not get, that is there was nothing taken into account in earned income until the service was rendered.

Q. You have referred to the memorandum accounts receivables, would you explain that as distinguished from a true account receivable?

A. Yes. A memorandum account receivable would be one that would be set up on the books in connection with [fol. 199] an executory contract, that is where something is to be done in the future when some product is to be shipped or supplied or a service is to be rendered in the future and it is set up, if it is ever set up in the books it is set up only for memorandum purposes and for the purpose of control. That would happen to be necessary in this particular situation. I think I could illustrate it best by taking the example that His Honor used this morning in connection with the sale of an automobile. (A man can go into

an automobile agency and buy a car. When the car was delivered to him then you have a real accounts receivable, but if a man was to go into an automobile agency today and decide he wanted a 1959 model whenever he can get it and perhaps that car has not been ever manufactured yet but he is going to get that at some future date and he leaves an order for it, that is certainly a memorandum account receivable.

Q. That would be true even though he put a deposit on it?

A. That's right.

Q. Does the accounting method employed by the partnership Arthur Murray Dance Studio actually reflect its true income?

A. It does.

Mr. McCormick: In your opinion?

By Mr. Bauersfeld:

Q. In your opinion?

A. Yes.

Q. Does the system of accounting employed by the partnership bear a true relation to the services rendered and the costs to be incurred by the partnership?

A. It does.

Q. Does the adjustment made to deferred income by the Commissioner in the notices of deficiency in your opinion result in a determination of true income of the partnership?

A. No, it doesn't and on the contrary it results in a material distortion of income.

Q. Will you explain why it results, in your opinion, in a distortion of income?

A. As I said a moment ago, this deferred income was a liability reserve. It will cost this enterprise that full amount to render that service in the future. It has an obligation, a commitment, to give these lessons, and it must spend as much to render the service, render the tuition service, as it has set up in this deferred income account, and it would be highly improper not to match [fol. 200] that cost with that income. In my opinion the income isn't earned, it isn't realized until that service is ren

dered and there is no matching of the income and the related expenses and you must have that to have a proper and a true and an accurate determination of income under the accrual basis.

Q. Do you know of any other accounting method that would truly reflect the partnership's income?

A. No, I don't, and I think that the system here used was ideally adapted to the necessities of this business and that it conformed with the customs of conducting this business. I think it was ideal in every respect.

Q. Do the tax returns of the partnership, which are in evidence, in your opinion properly or truly reflect its true income?

A. Yes, the tax returns are in conformity with the books. They have been, the books have been consistently maintained on this accounting basis ever since the organization of the enterprise back in 1946. There has been a consistent application of the accounting principles and the tax returns do follow the books.

Mr. Bauersfeld: You may inquire.

The Court: We'll recess now for 10 minutes.

(Recess.)

The Court: We will now proceed.

Mr. Bauersfeld: If the Court please, I have one or two more questions of Mr. Miller.

The Court: Yes. All right.

By Mr. Bauersfeld:

Q. What were the restrictions as to the use of the assets and the deferred-income account?

A. Well, there were several. First of all there was the escrow account that was maintained with Arthur Murray, Inc., the licensor, and pursuant to the license agreement which required this concern to remit to it five percent of its tuition when received. Then there was a restriction also in connection with the so-called reserve account maintained with the Bank where students' notes were discounted with recourse. I think, too, that there is an inherent restriction as to use to a substantial extent in connection with the

[fol. 201] memorandum accounts receivable, in this respect that you are certainly restricted as to something you are not getting, you will never get it, and the experience of this enterprise has shown that 50 percent of the accounts receivable, the memorandum accounts receivable on the books, at any one time will never be realized. As I said before, the cancellations of receivables have averaged 62 percent of the receivables that were outstanding at the beginning of each of these five years.

Mr. Bauersfeld: You may inquire.

The Court: Cross-examine.

Cross examination.

By Mr. McCormick:

Q. As I understand your testimony, Mr. Miller, it is to the effect that the books and records of this partnership reflect their proper income according to good commercial and theoretical accounting principles.

A. In accordance with sound accounting principles, that is with generally accepted accounting practice, yes.

Q. You do realize there are many differences in commercial accounting and tax accounting do you not?

A. There are some.

Mr. McCormick: I believe that's all.

Redirect examination.

By Mr. Bauersfeld:

Q. In the phrasing of one of the questions on cross-examination, the phrase used was that in "commercial and theoretical principles". Did you mean to imply any of this was theoretical, Mr. Miller?

A. No, I think it's quite the contrary. I think it's very practical. It recognizes the necessities of this particular type of business and my answer was to the effect it's in accordance with sound accounting practices and generally recognized accounting practices.

Q. And there are no artificial or allocations or estimates made in the method that is being used?

A. No.

Mr. Bauersfeld: No further questions.

[fol. 202] Recross examination.

By Mr. McCormick:

Q. Your testimony with respect to your opinion as to the accuracy of the returns in this case was based upon your conclusion that the books properly reflected the income according to accounting methods, is that not correct?

A. Not entirely, no.

Q. Would you explain that, please?

A. Well, I have yet to see anything in the income-tax statute that says that this isn't a proper accounting method and that by the application of this accounting method you can't arrive at a true income and an accurate income, an accurate income in accordance with the income-tax statutes.

Q. Are you familiar with the many cases in the Supreme Court dealing with the claim-of-right doctrine?

A. Yes; I am.

Q. Aren't those cases dealing with the income-tax statutes?

A. I think—Let me preface this remark by saying right off the bat that I'm not a lawyer but I don't think some of them are but there's a distinction here, too, when you have a memorandum accounts receivable I don't think you have an enforceable right to anything.

Mr. McCormick: I believe that's all.

The Court: All right, Mr. Miller. Thank you.

(Witness excused.)

COLLOQUY BETWEEN COURT AND COUNSEL

Mr. Bauersfeld: Petitioner rests.

The Court: Does the respondent have any testimony?

Mr. McCormick: No, sir.

The Court: I suppose the income tax returns and so on are attached to the Stipulation?

Mr. Bauersfeld: Yes, Your Honor.

The Court: All right, gentlemen, what length of time would you like to have in which to file your simultaneous briefs in this case?

[fol. 203] Mr. Bauersfeld: Well, sir, I've tried a whole series of cases this spring. I was wondering if Your Honor would entertain 90 days?

The Court: Well, I think so. I think the Court will have plenty, he has already heard enough to keep him busy. Do you want 90 days, also, Mr. McCormick?

Mr. McCormick: Yes, sir.

The Court: All right, the Court will grant the parties until June 23, 1958, in which to file your opening briefs. I suppose you would want 30 days in which to file reply briefs?

Mr. Bauersfeld: Yes, sir.

Mr. McCormick: Yes, sir.

The Court: You may have that, until July 23, 1958, in which to file your reply briefs.

Mr. Bauersfeld: Thank you, Your Honor.

The Court: I think that concludes all that we have set for today and we'll recess now until 9:30 tomorrow morning.

(Whereupon, at 4 p. m., Monday, March 24, 1958, the hearing was closed.)

IN THE TAX COURT OF THE UNITED STATES

32 T. C. No. 124

Docket Nos. 62109, 69591, 69592, 69593

MARK E. SCHLUDE and MARZALIE SCHLUDE et al.,[1] Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

FINDINGS OF FACT AND OPINION IN DOCKET NOS. 62109, 69591, 69592 AND 69593—Filed September 28, 1959

The Studio, a partnership operating Arthur Murray Dance Studio, entered into contracts with students whereby [fol. 204] it agreed to furnish dancing lessons and the student agreed to pay therefor. The student would make a down payment and pay the balance in installments, sometimes giving a note therefor. The Studio, an accrual basis partnership, returned as gross income the pro rata amount of the contract price based on the number of lessons taught during the year. Usually, by the end of the year, the balance of the contract price or some portion thereof had been paid by the student. The Commissioner determined that the entire contract price had to be returned as gross income in the year the contract was entered into on the ground that it had been received or accrued. *Held*, for the Commissioner. The entire contract price accrued at the time the contract was entered into since the Studio had a right to receive a fixed and determinable amount.

Carl F. Bauersfeld, Esq., and Einar Viren, Esq., for the petitioners.

William E. McCormick, Esq., for the respondent.

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[1] The following proceedings are consolidated herewith: Mark E. Schlude, Docket No. 69591; Marzalie Schlude, Docket No. 69592; and Mark E. Schlude and Marzalie Schlude, Docket No. 69593.

The respondent determined deficiencies in income tax as follows:

Docket No.	Petitioner	Year	Deficiency
62109	Mark E. Schlude and Marzalie Schlude	1950	$15,819.44
		1952	9,264.69
69591	Mark E. Schlude	1952	8,971.55
69592	Marzalie Schlude		
69593	Mark E. Schlude and Marzalie Schlude	1953	$3,295.82
		1954	11,544.32

Respondent on brief concedes that the proceeding for 1950 (Docket No. 62109) is barred by the statute of limitations. Therefore, findings of fact as to the partnership fiscal year 1950 will in the main be omitted. No deficiency for the fiscal year 1951 was determined.

In the remaining proceedings the deficiencies are based on a number of adjustments, only one of which (for each year) is in issue. The adjustment in issue relates to the income of a partnership known as Arthur Murray Dance Studio in which the petitioners were equal partners. This [fol. 265] adjustment was the adding to the income of the partnership the yearly increases in an account entitled "Deferred Income" on the ground that such amounts represented taxable income.

For the fiscal year 1950, the respondent, in his deficiency notice, explained this adjustment as follows:

Explanation of Partnership Adjustments

1.—Income is increased by the amount of prepaid income received during the fiscal year. Income is also increased by the amount of the accounts receivable and notes receivable that are attributable to the fiscal year.

The prepaid income was unrestricted as to use. It clearly represented income to the partnership in the year it is received.

As for the accounts and notes receivable, these are income to an accrual basis taxpayer for the period in which they arise.

All the similar adjustments for the taxable years, in this respect, are the same as above except as to amounts.

Findings of Fact

Some of the facts have been stipulated; they are incorporated herein by this reference.

Petitioners Mark E. and Marzalie Schlude, husband and wife, are residents of Omaha, Nebraska, and filed their returns on the cash basis for the years involved with the now director of internal revenue for the district of Nebraska.

On June 18, 1946, the petitioners formed a partnership known as Arthur Murray Dance Studio, hereinafter sometimes referred to as the Studio, in which they were equal partners, for the purpose of conducting dance studios in territories authorized by various franchise agreements received from Arthur Murray, Inc., New York, New York.

The franchise agreements required the partnership to pay Arthur Murray, Inc., a royalty of 10 per cent of the gross receipts of such dancing school or schools. In addi- [fol. 206] tion, the agreements required the partnership to pay Arthur Murray, Inc., 5 per cent of its gross receipts to be held in escrow by Arthur Murray, Inc., and to protect and indemnify Arthur Murray, Inc., from any and all claims that may be made against it as a result of granting the franchise to the partnership. The payments to the escrow fund were to continue until the partnership had deposited the total sum of $20,000 with Arthur Murray, Inc. Thereafter, no further payments were to be made to the fund unless the fund was depleted by payments therefrom, in which case, payments were to be continued or resumed until the fund amounted to the sum of $20,000. These amounts were required to be paid weekly. The franchise agreement gave Arthur Murray, Inc., control and supervisory powers over many phases of the conduct of the business of the Studio. It also required the Studio to honor the unused portion of paid courses of lessons of students enrolled in any other studio licensed by Arthur

Murray, Inc., by giving lessons to such students. Arthur Murray, Inc., also required other studios to do the same. The sum of $1.50 per hour was to be paid by the studio holding the contract to the studio giving the lesson.

Pursuant to the franchise agreements, the partnership operated studios for the teaching of private ballroom dancing to individual students. The location of the various studios being operated by the partnership and the date of their formation is as follows:

Location	Date of Formation
Omaha, Nebraska	June 18, 1946
Lincoln, Nebraska	September 20, 1948
Sioux City, Iowa	October 1, 1949
Sioux Falls, South Dakota	June 1, 1952
Grand Island, Nebraska	October 3, 1953

When a student engaged the Studio to teach dancing lessons, the student and the Studio executed one of the six forms of written contracts entitled as follows:

(a) Enrollment Agreement and Contract With Student for Instruction.

[fol. 207] (b) Extension Agreement and Contract With Student for Instruction.

(c) Renewal Agreement and Contract With Student for Instruction.

(d) Deferred Payment Enrollment Agreement and Contract With Student for Instruction.

(e) Deferred Payment Extension Agreement and Contract With Student for Instruction.

(f) Deferred Payment Renewal Agreement and Contract With Student for Instruction.

There are basically two types of contracts entered into between the partnership and students, i. e., the cash plan contracts (contracts (a), (b), and (c)), and the deferred payment plan contracts (contracts (d), (e), and (f)). Each plan has three categories. The first sale of a dance course

represents an original sales contract (contracts (a) and (d)). After the student has contracted for an original course, he has the privilege prior to the fifth hour of instruction on the original course of enlarging that course at a lesser rate by entering into an "extension" agreement course (contracts (b) and (e)). A renewal course (contracts (c) and (f)) is one sold to a student after his completion of the original and extension courses.

Under contracts (a), (b), and (c) a portion of the contract price was paid in cash at the time of signing the agreement and the balance was to be paid in deferred installments. Under contracts (d), (e), and (f) a portion of the down payment was paid in cash at the time of contracting. The balance of the down payment was to be paid in installments and the remaining balance of the contract price was to be paid in the manner set forth in a negotiable note which accompanied the contract.

All of the contracts provided that (1) the student should pay tuition for lessons in a certain amount, (2) the student should not be relieved of his obligation to pay the tuition agreed upon in the contract, (3) no refunds would be made, and (4) the contract is noncancellable. The contracts provided for a specific number of hours of lessons ranging [fol. 208] from 5 hours to 1,000 and 1,200 hours. Some of the contracts were for lifetime courses which, in addition to 1,200 specified hours, the student is entitled to 2 hours of lessons per month plus 2 parties a year for life. Under many of the contracts the lessons extended beyond the fiscal year in which the contract was entered into. Most of the lessons which extended beyond the fiscal year in which the contract was entered into were taught in the fiscal year immediately succeeding the year in which the contract was entered into. At the time of contracting, the student and the Studio did not agree upon a schedule for performance of the lessons upon fixed dates. The dates for instruction were arranged from time to time as lessons were given.

Notes accompanying deferred payment contracts received by the Studio were negotiated with a local bank. At the time a student's note was negotiated with the bank, the

bank would deduct its interest charges and give approximately 50 per cent of the balance of the note to the partnership and set up a reserve account for the other 50 per cent of the note which the partnership could not use until after the note was paid in full by the student. After the note was paid, the balance in the reserve account was transferred to the partnership's general bank account. The notes were transferred to the bank because it was felt that the student (maker of the note) would be more likely to pay the bank than the partnership. The bank made no credit investigation of the student because it had complete recourse against the partnership.

Cash payments received by the partnership directly from students, the amounts received by the partnership at the time notes were transferred to the bank, and the amounts received by the partnership when notes transferred to the bank were fully paid were either deposited or credited to a partnership general bank account without segregation from other partnership funds.

Although the contract stated that they were noncancellable, the Studio frequently rewrote contracts reducing the number of lessons for a smaller sum of money. Also, despite the fact that the contract provide that no refund will be made, and despite the fact that the Studio dis- [fol. 209] couraged refunds, occasionally a refund would be made on a cancelled contract.

The Studio paid Arthur Murray, Inc., of New York in weekly payments on Friday of each week, 10 per cent of the gross cash receipts of the Studio for the preceding calendar week. Commissions for selling lessons were, in general, paid at the time cash payments were received by the Studio.

When the partnership was organized in 1946, a public accountant employed by a firm of certified public accountants installed a complete double entry bookkeeping system. An accrual method and a fiscal year ending March 31 were employed. This accounting system was used continually and consistently from 1946 throughout the years in question. The public accountant (who became a certified

public accountant in 1948) installed the accounting system, kept the Studio's books and prepared its partnership income tax returns in conformity with the books.

In addition to the books, individual student record cards were maintained. On these cards are recorded the name and address of the student, the type of contract, the hours involved, the total contract price, and a history of the lessons taught and payments made under the contract.

Under its system of accounting all of the transactions affecting each contract were recorded on individual record cards at the time they occurred. On its books the various transactions were recorded as follows:

(1) When a contract was entered into: *Accounts Receivable* is charged for the total contract price and *Deferred Income* is credited for a like amount.

(2) When a cash payment, down payment or otherwise, on a contract is received: *Cash* is debited and *Accounts Receivable* is credited.

(3) The record does not show the entries which are made when the installment notes are transferred to the bank but it appears that the Studio treated the amounts withheld by the bank, viz., the Reserve Fund, as an Account Receivable.

[fol. 210] (4) Expenses were recorded and deducted in the periods incurred except that the 10 per cent royalties to Arthur Murray, Inc., and certain other items were recorded and deducted when paid. (Actually many of these amounts were also incurred at about the same time as when paid.)

(5) At the close of each fiscal year all of the individual student's record cards were analyzed and the total number of hours taught and remaining untaught were determined. The total number of taught hours was multiplied by the designated rate per hour of each contract. (This rate is apparently arrived at by dividing the total number of contract hours into the total contract price.) The amounts arrived at (taught hours times rate per hour)

for each contract are totaled and this total is regarded as earned income. This amount is then charged to *Deferred Income* and credited to *Earned Income*.

(6) If there had been no activity in a course under a contract for a period of over a year entries would be made canceling the course and contract. In the event a course was canceled or reduced in amount, the following entries would be made: *Deferred Income* would be charged with the amount of deferred income applicable to the canceled portion. (Untaught hours canceled times rate per hour equals amount of deferred income applicable.) *Accounts Receivable* would be credited for the amount due on the canceled hours, if any, and any other amount due which would not be paid because of the cancellation or reduction. The difference between the amount charged to *Deferred Income* and the amount credited to *Accounts Receivable* would be debited or credited to *Gain or Loss on Cancellations*. (There would be a gain if the amount charged to *Deferred Income* exceeded the amount credited to *Accounts Receivable* and a loss if the latter exceeded the former.)

The following schedule reflects the number of untaught hours (of lessons) at the end of the following fiscal years:

[fol. 211]

	March 31 1952	March 31 1953	March 31 1954
Balance—Beginning	15,091½	17,486	31,168
Additions			
Sales	28,975	52,649½	54,128
	44,066½	70,135½	85,296
Deductions			
Hours taught—transferred to earned income	17,436½	28,436½	39,159
Hours untaught—canceled due to inactivity	9,144	10,531	14,459½
Total deductions	26,580½	38,967½	53,618½
Balance—ending—of untaught hours	17,486	31,168	31,677½

The following schedule reflects a history of the *Deferred Income* account for the fiscal years ended March 31, 1952, 1953 and 1954:

Contract Amount of Deferred Inc:	March 31 1952	March 31 1953	March 31 1954
Balance—beginning	$106,541.70	$131,143.92	$235,942.33
Additions during Year Contract amount of sales	235,396.68	430,293.65	452,640.70
	$341,938.38	$561,437.57	$687,983.03
Deductions			
Contract amount transferred to earned income	$143,949.63	$243,277.46	$325,266.97
Contract amount unearned and canceled due to lack of activity	66,844.83	82,217.78	113,975.76
Total deductions	$210,794.46	$325,495.24	$439,242.73
Balance—ending—of contract Amount of deferred income	$131,143.92	$235,942.33	$248,740.30

The following schedule reflects the beginning and ending balance in the *Deferred Income* account (as shown above) and the net change therein for the following fiscal years:

Contract Amount of Deferred Income	March 31 1952	March 31 1953	March 31 1954
Ending Balance	$131,143.92	$235,942.33	$248,740.30
Beginning Balance	106,541.70	131,143.92	235,942.33
Increase	$ 24,602.22	$104,798.41	$ 12,797.97

[fol. 212] The following schedule reflects the composition[2] of the beginning balance, ending balance, and the net change of the *Deferred Income* account for the following fiscal years:

	March 31 1952	March 31 1953	March 31 1954
Students Accounts Receivable			
(Installment Contracts Carried by Studio, Notes Not Yet Processed Through the Bank and Unpaid Balances on Planned Cash Courses)			
Ending Balance	$ 63,627.23	$ 86,698.33	$ 85,177.10
Beginning Balance	55,241.99	63,627.23	86,698.33
Increase or Decrease	$ 8,385.24	$ 23,071.10	$ (1,521.23)
Reserve Fund Held by Bank on Students Notes Financed			
Ending Balance	$ 7,943.74	$ 37,747.61	$ 34,533.22
Beginning Balance	8,112.28	7,943.74	37,747.61
Increase or Decrease	$ (168.54)	$ 29,803.87	$ (3,214.39)
Deferred Income Collected—			
(Considering Reserve Fund Held by Bank as Not Collected Until Funds Are Released and Made Available for Withdrawal by Bank)			
Ending Balance	$ 59,572.95	$111,496.39	$129,029.98
Beginning Balance	43,187.43	59,572.95	111,496.39
Increase	$ 16,385.52	$ 51,923.44	$ 17,533.59

Unpaid balances on notes held by the bank for the fiscal years ended March 31, 1952, through March 31, 1954, were as follows:

	March 31 1952	March 31 1953	March 31 1954
Ending Balance	$ 9,618.00	$ 40,627.96	$ 23,440.75
Beginning Balance	1,842.10	9,618.00	40,627.96

[2] By composition we mean the debits corresponding to the credits in the *Deferred Income* account. For example, the balance in the *Deferred Income* account at March 31, 1952, is $131,143.92. This amount is represented by the following ended balances at March 31, 1952:

Uncollected—	
Student Account Receivable	$ 63,627.23
Reserve Fund—Bank	7,943.74
Collected	59,572.95
	$131,143.92

In order to check the composition of any of the balances or net changes in the Deferred Income schedule the same computation must be made

[fol. 213] The following schedule reflects the amount of sales canceled, the uncollectible accounts receivable on the canceled sales, and the gain on cancellations on the Studio's books and returns for the years involved:

	Fiscal Years Ended March 31		
	1952	1953	1954
Sales Canceled	$ 66,844.8[illegible]	$ 82,217.78	$113,975.7[illegible]
Uncollectible Receivable on Cancellation	39,983.43	62,734.42	85,527.15
Gain on Cancellation	$ 26,861.40	$ 19,483.36	$ 28,448.61

The following schedule reflects ordinary gross income and deductions on the Studio's books and returns for the following fiscal years:

	March 31 1952	March 31 1953	March 31 1954
Gross Income			
Contract Amts. transferred Earned Income	$143,949.63	$243,277.40	$325,266.9[illegible]
Gains from cancellation	26,861.40	19,483.36	28,448.61
Other Income	4,041.21	11,426.23	16,987.3[illegible]
Total	$174,852.24	$274,187.0[illegible]	$370,702.8[illegible]
Deductions	137,267.91	223,390.69	301,609.76
Ordinary Net Income	$ 37,584.33	$ 50,796.3[illegible]	$ 69,093.13

The respondent, in his notices of deficiency,[3] increased the ordinary net income of the partnership for the fiscal years ended March 31, 1952, 1953, and 1954, by the amounts of the increases in the *Deferred Income* account in those years, viz., $24,602.22 for 1952; $104,798.41 for 1953, and $12,797.97 for 1954. (See schedule of income in *Deferred Income* account, supra.)

A supplemental stipulation of facts was filed April [illegible], 1958, which reads as follows:

> It is hereby stipulated that the tuition paid to other studios during the taxable years ending March 31, 1950 to March 31, 1954, inclusive, is as follows:

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[3] The respondent also disallowed certain expenses of the Studio, which are not in issue, and added to each partner's distributive share of partnership income his respective share of the additional income.

[fol. 214]

Taxable year ended March 31, 1950	$ 592.00
Taxable year ended March 31, 1951	751.10
Taxable year ended March 31, 1952	825.00
Taxable year ended March 31, 1953	1,328.13
Taxable year ended March 31, 1954	1,955.32

Opinion

Black, Judge: The petitioners are equal partners in the Studio, a partnership which owns and operates five Arthur Murray Dance Studios under franchise agreements with Arthur Murray, Inc. In dispute is the amount of the Studio's gross income. Specifically, the dispute relates to the manner in which the receipts from contracts for dancing lessons are to be reported.

The problem may best be explained by the following illustration: On August 1, 1952, the Studio enters into a contract with a student whereby the Studio agrees to teach the student 24 1-hour dancing lessons and the student agrees to pay $240 therefor, $100 down and $20 per month for the next 7 months. (In some cases the student gives a negotiable note for the installment payments.) Lessons are arranged from time to time and at the end of 1952 the Studio has given the student 10 lessons and the student has paid $180, the $100 down and four $20 installments. By March, 1953, the Studio gives the student 10 additional lessons and the student pays $40, two more installments. The student loses interest in the course and does not take the remaining four lessons and the Studio is unable to collect the remaining $20.

In 1952 the Studio, which reports on an accrual basis, returns as gross income $100, representing 10 lessons taught at $10 per lesson. During 1953 the Studio returns as gross income $100 representing 10 lessons taught at $10 per lesson. After the contract has been inactive for a year the Studio cancels it, computing a gain or loss thereon. Here the gain would be $20. (Four lessons untaught at $10 per lesson equals $40, less contract price unpaid of $20 equals $20 gain.) This $20 gain on cancellation would be returned as gross income in 1954.

[fol. 215] The Commissioner determined that the entire $240, the contract price, should be returned in 1952 when the contract was entered into and the amount of the contract was paid or agreed to be paid. We agree.

The Studio, being on an accrual basis, must return items of gross income in the year in which they accrued. Section 42. "Items must be accrued as income when the events occur to fix the amount due and determine liability to pay." Spring City Foundry Co. v. Commissioner, 292 U. S. 182 (1934). When the contracts were entered into the amounts due thereunder were fixed and the students were "liable to pay." It is true that a payment of a portion of the contract price was deferred but that does not affect the fixed and unconditional right of the Studio to receive the amount. Nor does the fact that the Studio was required to perform future services under the contract alter the Studio's right to receive since the deferred payments were in many cases due prior to the rendering of the services. And the record shows that in most instances substantial payments were received prior to the performance of the services for which the payments were made.

The exception to the rule stated above is where there is a real uncertainty as to whether the taxpayer will ever receive the amount in question, cf. San Francisco Stevedoring Co., 8 T. C. 222. Here the Studio actually received substantial cash or negotiable notes under each contract. The contracts themselves provided that they were non cancellable and that no refunds should be made. Despite this provision in the contract some contracts were canceled. The facts show that the cancellations were considerable in amount. These amounts, according to the Studio's records, were about 17 per cent, 15 per cent, and 19 per cent of sales for the respective years. Assuming that the rate of cancellation was about 17 per cent of sales that fact still would not provide a sufficient basis for a finding that there was a real uncertainty that the amounts due under any one or all of the contracts would be uncollectible (and therefore not accruable) at the time the contract(s) were entered into. The normal manner of providing for this type of contingency is through the use of a bad debt reserve. W

have no issue in the instant case as to any addition to a [fol. 216] bad debt reserve nor do we have any issue concerning debts of the partnership which became worthless in the taxable year.

It seems to us that the instant case is controlled by our decision in Curtis R. Andrews, 23 T. C. 1026, on the first point decided in that case. That first point decided in the *Andrews* case was essentially the same as the main issue we have in the instant case. While it is true that the facts in the *Andrews* case are not precisely the same as the facts in the instant case, nevertheless we do not think that such differences in facts as do exist would justify a holding in the instant case different from what we held in the *Andrews* case. For example, in the *Andrews* case, according to the Findings of Fact, the Arthur Murray Studios in that case did not have any accounts receivable but they did take notes receivable from their dancing students. In the instant case, apparently the Studio had accounts receivable as well as notes receivable. This difference, it seems to us, is not sufficient to make a valid distinction between the *Andrews* case and the instant case. To an accrual taxpayer, accounts receivable must be taken into income just the same as notes receivable. We know of no authority to the contrary. Petitioners, in their brief, argue that their accounts receivable for dancing lessons contracts were not true accounts receivable but were what they term "memorandum accounts receivable." Their argument on this point is, in part, stated in their brief as follows:

> The record shows that at the time the contract is executed and the entries made to the deferred income account, the so-called students accounts receivable at that time are not true, earned receivables. True accounts receivable are entered after a product has been delivered or services have been rendered.

In other cases before our Court we have not made the distinction in accounts receivable which petitioners seek to draw. See Your Health Club, Inc., 4 T. C. 385, which we will discuss more at length later.

Another difference in the facts in the *Andrews* case from those present in the instant case is that in the *Andrews* case when the Arthur Murray Studio partnership trans- [fol. 217] ferred the notes which it took from its students to the bank, the bank paid the studio partnership the full face amount of the notes, less a six per cent discount. In the instant case, when the Studio partnership transferred the student notes to the bank, it did not receive from the bank the full face amount of the notes. The bank held back 50 per cent of the face amount of the notes and set up a reserve account of the amounts withheld which the partnership could not use until after the note was paid in full by the student. This fact, however, does not preclude the accrual as income of the full amount of the note when it is received from the student. Cf. Commissioner v. Hansen et al., U. S. , decided June 22, 1959. These were the so-called "Dealers' Reserve Accounts" cases. In the *Hansen et al.* cases the Supreme Court held that the transactions involved were sales of installment paper and the amount of the purchase price retained and recorded as a liability to each dealer accrued as income to him, even though he could not presently recover it, since he had a fixed right to such sum whether it was applied, as he had authorized, to payment of his obligation as guarantor or endorser of the installment paper, or paid to him in cash.

One of the cases relied upon by us in *Curtis R. Andrews*, *supra*, was *Your Health Club, Inc., supra.* In the latter case the taxpayer corporation was engaged in the business of operating a health club. Its activities consisted in furnishing facilities and services for various sport activities, Russian and Turkish baths, massages, ultra violet ray and solarium treatments. These services and facilities were furnished by the taxpayer under *contracts* entered into with members. The contract memberships entitled members to avail themselves of taxpayer's facilities for a period of 1 year; once, twice, or three times a week according to the type of contract selected by the member. The taxpayer kept its books and filed its returns on an accrual basis. All contracts entered into were immediately entered upon the books of the taxpayer in full. At the end of the taxable year, in the case of contracts extending beyond the close of

the year, the membership fee was allocated in each instance between the expired and unexpired portion of the contract, such allocation being based upon the number of months yet to run under the contract. The amounts allocated to the [fol. 218] expired portion of the contracts were carried to gross income for that year and the balance was set up in the form of a "reserve for uncompleted contracts" and excluded from the gross income of the taxable year as "unearned income." Generally, the members paid their membership fees in advance, in cash, but not always. For example, during the fiscal year ended March 31, 1940, membership contracts entered into amounted to \$48,280.21. Of this amount, \$42,800.85 was paid in cash during the year and the balance represented accounts receivable due at the close of the year. The taxpayer filed its income tax returns in accordance with its method of allocation above described. The Commissioner disallowed this method as not correctly reflecting income and determined deficiencies. We upheld the Commissioner. In doing so we said:

> The amounts paid in cash were deposited in petitioner's general account and were subject to no restrictions as to use or application. The amounts unpaid but accrued constituted accounts receivable as of the close of the taxable year, and were unqualifiedly due and payable. In these circumstances, all such amounts received or accrued must be considered income to petitioner in the year received or accrued. (Citing numerous cases not necessary to enumerate here.)

Thus, it will be seen from the foregoing recitals from the *Your Health Club, Inc.*, case that the services which the taxpayer corporation in that case contracted to render its members, some of which lapsed over into the following year, were Russian and Turkish baths, massages, ultra violet ray treatments, etc. The taxpayer sought, by its method of accounting, to give recognition to this lapse over of services to be rendered into the following year by allocating part of the membership fees provided for in the contract to the following year. This we denied in the *Your Health Club, Inc.*, case for reasons already stated.

While it is, of course, true that the giving of Turkish and Russian baths and massages is somewhat different from giving dancing lessons, we think there is no difference in principle as to how the contract price for the two kinds of services should be treated from an accounting [fol. 219] standpoint by one on an accrual basis. The rule which must govern the respective taxpayers, *Your Health Club, Inc.*, and the Studio in the instant case, is as was said in *Your Health Club, Inc.*, "In these circumstances, all such amounts received or accrued must be considered income to petitioner in the year received or accrued."

We think it was quite appropriate for us, in *Curtis R. Andrews*, supra, to cite and rely upon the *Your Health Club, Inc.*, case as one of our supporting authorities for the result reached in that case. We also think it is appropriate to do so here. Cf. Automobile Club of Michigan v. Commissioner, 353 U. S. 180, affirming 230 F. 2d 585, which affirmed our decision, 20 T. C. 1033. See also Automobile Club of New York, Inc., 32 T. C.

Reviewed by the Court.

Decision will be entered for the petitioners in Docket No. 62109.

Decisions will be entered under Rule 50 in Docket Nos. 69591, 69592, and 69593.

Pierce, J., dissenting:

1. As to those contracts for future services under which the entire contract price had not been prepaid either by cash or notes, and under which certain payments were not due to be made until a subsequent taxable year, I agree with the views expressed by Judge Train in his dissenting opinion. Such contracts were executory as to both parties; and the obligations to make the future payments thereunder had not matured, so as to become true accounts receivable, at the times when the contracts were executed. In such situation, I think there is no more justification for accruing the future contract payments as income of the year in which the contracts were executed, than there

would be for accruing as income at the time a lease is executed, all rental payments contracted to be made in subsequent years under such lease. The fact that a contract for future services, or a lease for future use of property, may be legally enforceable is not in itself justification for [fol. 220] accruing as income of the year in which the instrument is executed, all payments to be made thereunder in future years.

2. Even as to those contracts for future services upon which prepayment had been made, I think this Court has erred in refusing to permit the taxpayer to spread the income over the periods in which such income was to be earned, in accordance with sound business accounting practices. On the basis of the authorities and reasons which I have heretofore set forth in my dissenting opinion in the case of Automobile Club of New York, Inc., 32 T. C. (filed July 20, 1959), I think that such action of the Court not only defeats a true reflection of income, but also is out of harmony with the weight and trend of Courts of Appeals authority.

TRAIN, Judge: I respectfully dissent.

I do not agree that the petitioners should be required to report as income amounts which were not received in the taxable year, either in cash or by notes, and which were not due and payable by the close of the taxable year.

The majority opinion relies heavily on *Curtis R. Andrews*, 23 T. C. 1026 (1955), which applied the so-called claim of right doctrine and prohibited the deferral of amounts received but not earned in the taxable year. The facts of the instant case disclose that a portion of the contract amounts were not paid either in cash or by notes in the taxable year. As to that portion of the "student accounts receivable", the claim of right doctrine can have no applicability and the majority's reliance on the *Andrews* case is misplaced.

Moreover, even though the student's contractual obligation arose at the time of signing, it is clear that the contract amounts did not become due and payable in their

entirety in that year. To the extent that these same accrued amounts were not due and payable in the taxable year, I do not believe that *Your Health Club, Inc.*, 4 T. C. [illegible] (1944), is authority for their inclusion in income of that year.

[fol. 221] I believe that the conclusion reached by the majority does violence to established rules of accounting, whether for business or tax purposes, and results in a distortion of income.

Drennen, J., agrees with this dissent.

In the Tax Court of the United States

Order Striking and Substituting Certain Language in Opinion—November 23, 1959

At the conclusion of the Opinion filed in these proceedings on September 28, 1959, we directed that the decision in Docket No. 62109 be entered for the petitioners and the decisions in Docket Nos. 69591, 69592, and 69593 be entered under Rule 50.

On November 19, 1959, respondent filed a motion in which he asked that the words "Decisions will be entered under Rule 50 in Docket Nos. 69591, 69592, and 69593" be stricken and that there be substituted for the language stricken the words "Decisions will be entered for the respondent in Docket Nos. 69591, 69592, and 69593." Counsel for petitioners has noted "No Objection" to said motion. Therefore, it is:

Ordered, that said motion is granted and the words "Decisions will be entered under Rule 50 in Docket Nos. 69591, 69592, and 69593" in our Opinion filed September 28, 1959, be stricken and that there be substituted therefor "Decisions will be entered for the respondent in Docket Nos. 69591, 69592, and 69593."

Eugene Black, Judge.

Dated: Washington, D. C., November 23, 1959.

(Seal)

[fol. 222]

IN THE TAX COURT OF THE UNITED STATES

WASHINGTON

Docket No. 69591

MARK E. SCHLUDE, Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

DECISION IN DOCKET NO. 69591—November 23, 1959

Pursuant to the determination of the Court as set forth in its Findings of Fact and Opinion filed September 28, 1959, and Order of this Court dated November 23, 1959, it is

Ordered and Decided: that there is a deficiency in income tax for the taxable year 1952 in the amount of $9,264.69.

Eugene Black, Judge.

Enter:

Entered Nov. 23, 1959.

(Seal)

IN THE TAX COURT OF THE UNITED STATES

WASHINGTON

Docket No. 69592

MARZALIE SCHLUDE, Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

DECISION IN DOCKET NO. 69592—November 23, 1959

Pursuant to the determination of the Court as set forth in its Findings of Fact and Opinion filed September 28,

[fol. 223] 1959, and Order of this Court dated November 23, 1959, it is

Ordered and Decided: that there is a deficiency in income tax for the taxable year 1952 in the amount of $8,971.55.

Eugene Black, Judge.

Enter:

Entered Nov. 23, 1959.

(Seal)

In the Tax Court of the United States

Washington

Docket No. 69593.

Mark E. Schlude and Marzalie Schlude, Petitioners

v.

Commissioner of Internal Revenue, Respondent

Decision in Docket No. 69593 — November 23, 1959.

Pursuant to the determination of the Court as set forth in its Findings of Fact and Opinion filed September 28, 1959, and Order of this Court dated November 23, 1959, it is

Ordered and Decided: that there are deficiencies in income tax for the taxable years 1953 and 1954 in the respective amounts of $8,385.82 and $11,544.32.

(Signed) Eugene Black, Judge.

Enter:

Entered Nov. 23, 1959.

(Seal)

[fol. 224]

IN THE TAX COURT OF THE UNITED STATES

The United States Court of Appeals
For the Eighth Circuit

T. C. Docket Nos. 69591, 69592, 69593

MARK E. SCHLUDE AND MARZALIE SCHLUDE, Husband and Wife, Petitioners on Review,

v.

COMMISSIONER OF INTERNAL REVENUE,
Respondent on Review.

PETITION FOR REVIEW OF DECISIONS IN DOCKET NOS. 69591, 69592 AND 69593—Filed February 3, 1960

Petitioners on review are Mark E. Schlude and Marzalie Schlude, husband and wife, whose address is 459 Beverly Drive, Omaha, Nebraska. Petitioners on review filed separate, individual income tax returns for the year 1952 and joint returns for the years 1953 and 1954, the taxable years here involved, with the now Director of Internal Revenue for the District of Nebraska at Omaha, Nebraska, which collection district is within the jurisdiction of the United States Court of Appeals for the Eighth Circuit, where this review is sought.

The petitioners on review petition the United States Court of Appeals for the Eighth Circuit to review the decisions entered by the Tax Court of the United States on the 23d day of November, 1959, wherein and whereby it was ordered and decided that there were deficiencies in income tax in respect of the Federal income tax liabilities of the above-named petitioners on review for the years 1952 to 1954, inclusive, as follows:

Petitioner	Docket No.	Year	Deficiency
Mark E. Schlude	69,591	1952	$ 9,264.69
Marzalie Schlude	69,592	1952	8,571.55
Mark E. Schlude and		1953	8,385.82
Marzalie Schlude	69,593	1954	11,544.32

[fol. 225] The respondent on review is the duly appointed qualified and acting Commissioner of Internal Revenue, appointed and holding office by virtue of the laws of the United States.

This petition for review is filed pursuant to the provisions of sections 1141 and 1142 of the Internal Revenue Code of 1939 and sections 7482 and 7483 of the Internal Revenue Code of 1954.

Nature of Controversy.

On June 18, 1946, petitioners on review, Mark E. Schlude and Marzalie Schlude, formed a partnership for the purpose of conducting Arthur Murray Dance Studios in territories authorized by a franchise agreement received from Arthur Murray, Inc., New York City, New York.

From its inception, the partnership employed a certified public accountant to install its bookkeeping system, and that accountant maintained its books since that date. The partnership's books of account have been maintained on a fiscal-year basis ending March 31, and the accrual method of accounting has been employed. The partners report their income on a calendar-year basis.

The partnership is engaged in the business of giving private ballroom dance instruction to students. There are basically two types of contracts with students: (1) a cash plan and (2) a deferred-payment plan. The dance courses given cover a certain number of hours which range from five hours to one-thousand hours or even to lifetime courses. Some of the contracts extend beyond the taxable year in which the contract is made. In many of the deferred-payment contracts payment was not due until after the year of making the contract. The partnership reported the income it received from the dancing business when it was earned. Expenses were taken into account when incurred, regardless of when paid. In other words, the advance payments for dancing instructions were not taken into account until hourly instruction was given. That is the time when the income was earned and the operating costs are known. The partnership returned as

[fol. 226] gross income the pro rata amount of the contract price based on the number of lessons taught during the year.

The Commissioner of Internal Revenue determined that the entire contract price had to be returned as gross income in the year the contract was entered into on the ground that it had been received or accrued. The Tax Court sustained the Commissioner and held that the entire contract price accrued at the time the contract was executed. The question presented for decision is: Has the partnership reported its true income?

Statement of Points Upon Which Petitioners on Review Intend to Rely

The Tax Court of the United States erred:

(1) In holding and deciding that petitioners owed deficiencies in income tax for the years 1952 to 1954, as follows:

Petitioner	Docket No.	Year	Deficiency
Mark E. Schlude	69,591	1952	$ 9,264.69
Marzalie Schlude	69,592	1952	8,971.55
Mark E. Schlude and		1953	83,305.82
Marzalie Schlude	69,593	1954	11,544.32

(2) In holding and deciding that the entire contract price for dancing lessons accrued at the time the contract was entered into.

(3) In holding and deciding that the partnership, Arthur Murray Dance Studios, was required to take into income the entire amount of a contract price for dancing lessons when the contract was entered into, regardless of when the contract price was paid or agreed to be paid or regardless of when the services were agreed to be rendered.

(4) In holding and deciding that the signing of a contract for dancing lessons was the event which fixed the amount due and determined the student's liability to pay with sufficient certainty as to cause the entire amount to be immediately accruable.

[fol. 227] (5) In holding and deciding that the cancellation of about 17 per cent of sales would not provide a sufficient basis for finding that there was a real uncertainty that the amounts due under any one or all of the contracts would be uncollectible at the time the contracts were entered into.

(6) In holding and deciding that the memorandum accounts receivable of students were true accounts receivable.

(7) In holding and deciding that the partnership must take into income each year the yearly increases in the deferred income account on the books of the partnership.

(8) In failing to hold and decide that the partnership reported its true income and that the method of accounting employed consistently and properly reflects its true income and is the only practical business way of keeping its books and reporting its income.

(9) In failing to hold and decide that the accounting method employed by the partnership reflects the consistent application of generally accepted accounting principles.

(10) In failing to take into consideration and disregarding the uncontradicted and unimpeached testimony of the witnesses for petitioners on review, who testified that the books and records of the partnership were maintained in accordance with generally accepted and sound accounting principles which properly reflected the partnership's true income.

(11) In failing to take into consideration and disregarding the uncontradicted and unimpeached testimony of the witnesses for petitioners on review, who testified that the method of accounting and of adjustments proposed by the Commissioner would distort the partnership's income.

(12) In that each of the decisions is not supported by the evidence.

(13) In that the decisions are contrary to law.

Wherefore, the taxpayers petition that the opinion and decision of the Tax Court, hereinabove referred to, be re-

[fol. 228] viewed by the United States Court of Appeals for the Eighth Circuit; that a transcript of record be prepared in accordance with the law and rules of said Court and transmitted to the Clerk of said Court for filing; that appropriate action be taken to the end that errors complained of may be reviewed and corrected by the Federal Court.

Mark E. Schlude, Marzalie Schlude, by Robert Ash, 1921 Eye Street, N. W., Washington 6, D. C., Attorney for Petitioners on Review.

Of Counsel: Einar Viren, Omaha, Nebraska.

February 3, 1960.

Clerk's Certificate to foregoing transcript (omitted in printing).

[fol. 229]

IN THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

Docket No. 16,443

MARK E. SCHLUDE and MARZALIE SCHLUDE, Husband and Wife, Petitioners on Review,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent on Review.

DESIGNATION OF PETITIONER OF PARTS OF RECORD TO BE PRINTED ON REVIEW—Filed March 16, 1960

Come now the petitioners on review in the above captioned case and request that the following parts of the record be printed under supervision of the Clerk of the Court:

1. Docket entries of proceedings in Tax Court Docket Numbers 69591, 69592 and 69593.

2. Pleadings:

(a) Petition, including annexed copies of notices of deficiency and statement attached, in each of the above Tax Court docketed numbers.

(b) Answers in each of the above-named docketed cases.

3. Stipulation of facts, together with Exhibits 1A to 21C, inclusive.

[fol. 230] 4. Supplemental stipulation of facts.

5. Official report of proceedings before the Honorable Eugene Black, Judge of the Tax Court of the United States at Omaha, Nebraska, on March 24, 1958.

6. Petitioners' Exhibits 22 to 31, inclusive.

7. Findings of fact and opinion of the Tax Court of the United States, filed September 28, 1959.

8. Decisions of the Tax Court of the United States entered in each of the above-named docketed cases on November 23, 1959.

9. Petition for review, filed February 3, 1960.

Robert Ash, 1921 Eye Street, N.W., Washington 6, D. C., Attorney for Petitioners on Review.

[fol. 231]

In the United States Court of Appeals for the Eighth Circuit.

No. 16,443

Mark E. Schlude and Marzalie Schlude, Husband and Wife, Petitioners,

v.

Commissioner of Internal Revenue, Respondent.

On Petition to Review Decision of The Tax Court of the United States.

Opinion—December 15, 1961

Before Sanborn, Van Oosterhout and Matthes, Circuit Judges.

Per Curiam.

For the second time this case is here for determination. Our first opinion, 283 F.2d 234, reversed the decision of the Tax Court. On June 19, 1961, the Supreme Court of the United States rendered its decision in *American Automobile Association v. United States*, 367 U.S. 687. On the same day the Supreme Court, by per curiam order in this case, directed that "The judgment is vacated and the case is remanded in light of *American Automobile Association v. United States* * * *." *Commissioner of Internal Revenue v. Schlude et ux.*, 367 U.S. 911. [fol. 232] On October 9, 1961, in denying petition for rehearing, the Supreme Court amended its per curiam order of June 19, 1961, as follows: "The judgment is vacated and the case is remanded *for further consideration* in the light of

American Automobile Association v. United States . . ." (Emphasis supplied.)

Pursuant to our invitation, counsel for petitioners and the Commissioner filed supplemental briefs and presented oral arguments directed largely to the question of whether this case falls within the ambit of the teachings of *American Automobile Association*, supra. In light of that case we have carefully examined and considered petitioners' method of accrual accounting and are convinced that such method does not, for income tax purposes, clearly reflect income.

Accordingly, our judgment previously entered is vacated, and the decision of the Tax Court is affirmed.

[fol. 233]

IN THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

September Term, 1961.

No. 16,443

MARK E. SCHLUDE and MARZALIE SCHLUDE, Husband and Wife, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

JUDGMENT—December 15, 1961

On Petition to Review Decision of The Tax Court of the United States.

This cause came on to be heard on the Petition to Review the Decisions of The Tax Court of the United States entered November 23, 1959 (Tax Court Docket Nos. 69591, 69592 and 69593), determining that there are deficiencies in the income taxes of the Petitioners for the years 1952, 1953 and 1954, after remand by the Supreme Court of the United States for further consideration in the light of the

decision in *American Automobile Association v. United States*, 367 U.S. 687, and was argued by counsel.

On Consideration Whereof, It is now here Ordered and Adjudged by this Court that the Opinion of this Court heretofore filed October 19, 1960, be withdrawn, and the judgment entered thereon is hereby vacated, set aside and held for naught.

It is further Ordered and Adjudged by this Court that the decisions of The Tax Court of the United States be, and they are hereby, affirmed.

And it is further Ordered and Adjudged by this Court that the petition to review in this cause be, and the same is hereby, dismissed.

December 15, 1961.

[fol. 234]

IN THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

September Term, 1961.

No. 16,443

MARK E. SCHLUDE and MARZALIE SCHLUDE, Husband and Wife, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

Petition to Review Decision of The Tax Court of the United States.

ORDER STAYING ISSUANCE OF MANDATE, ETC.—December 29, 1961

On Consideration of the Motion of the petitioners for a stay of the mandate in this cause pending a petition to the Supreme Court of the United States for a writ of certiorari.

it is now here Ordered by this Court that the issuance of the mandate herein be, and the same is hereby, stayed for a period of thirty days from and after this date, and, if within said period of thirty days there is filed with the Clerk of this Court a certificate of the Clerk of the Supreme Court of the United States that a petition for writ of certiorari and record have been filed, the stay hereby granted shall continue until the final disposition of the case by the Supreme Court.

December 29, 1961.

[fol. 235] Clerk's Certificate to foregoing transcript (omitted in printing).

[fol. 236]

SUPREME COURT OF THE UNITED STATES

No. 793—October Term, 1961

MARK E. SCHLUDE, et al., Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE.

ORDER ALLOWING CERTIORARI—May 28, 1962

The petition herein for a writ of certiorari to the United States Court of Appeals for the Eighth Circuit is granted, and the case is transferred to the summary calendar.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

Mr. Justice Frankfurter took no part in the consideration or decision of this application.

[fol. 237]

In the Supreme Court of the United States

October Term, 1961

No. 793

Mark E. Schlude and Marzalie Schlude

v.

Commissioner of Internal Revenue

On Petition for Writ of Certiorari to the United States Court of Appeals for the Eighth Circuit

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Stipulation and Addition to Record—Filed June 5, 1962

It is hereby stipulated and agreed by and between counsel for the respective parties to the above-entitled cause that the Clerk of the Supreme Court shall cause to be printed as a part of the record in the case, the Opinion of the United States Court of Appeals for the Eighth Circuit in "Mark E. Schlude, et al., Petitioners, v. Commissioner of Internal Revenue, Respondent No. 16443", dated October 19, 1960. A certified copy of said Opinion is attached hereto [fol. 238] and made a part of this Stipulation by reference.

Archibald Cox, Solicitor General, The Department of Justice, Attorney for Respondent.

Robert Ash, 1921 Eye Street, N.W., Washington 6, D. C., Attorney for Petitioners.

Dated: June 5, 1962.

[fol. 229]

ATTACHMENT TO STIPULATION

UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

No. 16,443

MARK E. SCHLUDE and MARZALIE SCHLUDE, Husband and Wife, Petitioners,

v.

COMMISSIONER OF INTERNAL REVENUE, Respondent.

Petition to Review Decisions of the Tax Court of the United States.

OPINION—Filed October 19, 1960
Withdrawn December 15, 1961

Before Sanborn, Woodrough, and Matthes, Circuit Judges.

Matthes, Circuit Judge.

The Commissioner of Internal Revenue determined that a deficiency existed in the tax liability of petitioners for the years 1952 to 1954, inclusive, as follows:

Mark E. Schlude for 1952	
Marzalie Schlude for 1952	$ 9,264.69
Mark E. and Marzalie Schlude for 1953	8,671.55
Mark E. and Marzalie Schlude for 1954	8,286.82
	11,544.32

[fol. 240] The Tax Court, with three Judges dissenting, affirmed the action of the Commissioner. See 32 T.C. 1271. Pursuant to §§ 1141, 1142 of the Internal Revenue Code of 1939 and §§ 7482, 7483 of the 1954 Code, petitioners have brought the case to this Court for review.

The facts, established by stipulation of the parties and evidence, are detailed in the findings of the Tax Court. Those essential to a proper understanding of the question presented for our determination are: Petitioners, husband and wife, on June 18, 1946, formed a partnership known as Arthur Murray Dance Studio for the purpose of conducting and operating dancing studios authorized by certain franchise agreements entered into with Arthur Murray, Inc., of New York City. The venture was carried into effect and the partnership operated studios in the States of Nebraska, Iowa and South Dakota, for the specific purpose of teaching private ballroom dancing to individual students.

Basically, there were two kinds of contracts entered into between the partnership and students desiring dancing instructions. Under one a portion of the total tuition was paid in cash when the contract was executed, and the balance in deferred installments. Under the other a portion of the down payment was paid in cash at the time the contract was entered into, and the balance of the down payment was to be paid in installments, the remainder of the contract price being evidenced by a negotiable note taken from the student payable in designated installments in accordance with the terms of the note. Under the contracts the student agreed to take a designated number of hours of dancing lessons and pay therefor the amount specified as tuition. All types of contracts contained a noncancellable clause [fol. 241] and provided that the student should not be relieved of his obligation to pay the tuition agreed upon. The hours of lessons or instructions contracted for ranged from 5 to 1,200 to 1,500. Some of the contracts were for lifetime courses, which meant that, over and above 1,200 specified hours, the student was [illegible] a month plus two parties a year for life. By separate terms,

the studio was required to give the number of hours of instruction agreed upon. The contracts, however, did not schedule the dates when the studio was required to give and the student was to receive instructions, this detail being arranged and agreed upon from time to time as lessons were given. Under many of the contracts, lessons extended beyond the fiscal year in which the contract had its inception.

Notes taken from students were transferred with full recourse, to a local bank, which at the time of acquiring a note, would deduct therefrom the interest charges, and give approximately 50% of the balance of the note to petitioners. Installment payments on the remainder of the note were held by the bank in a reserve account, but this reserve was not available to petitioners until the note was paid in full by the student, after which the reserve was transferred to the partnership's general bank account.

A sizeable number of contracts was cancelled annually, the non cancellable provision to the contrary notwithstanding. In its opinion the Tax Court conceded that "cancellations were considerable in amount", noting that records of the partnership disclosed that cancellations for the respective years involved were 17%, 15%, and 19% of sales for the respective years.[5]

[fol. 242] A complete double entry bookkeeping system was installed for the partnership by a certified public accounting firm at the time that the partnership was organized, and an accrual system of accounting was employed, with the fiscal year ending March 31. This accounting system was used continually and consistently from the time the partnership was formed. Additionally, individual student record cards were maintained, listing all pertinent information such as name and address of student, type of contract, hours involved, total contract price, history of lessons taught, and payments made under the contract.

Since the method pursued by the partnership with respect to its operations under its accrual system of account-

[5] 32 T.C. at p. 1279. Petitioners insist that the Tax Court's percentages of cancellations are inaccurate; that sales in the amount of approximately 28.4%, 19.1%, and 25.2% were cancelled in the fiscal years 1952, 1953 and 1954.

ing and the effect thereof from an income tax standpoint are fully and correctly shown in the findings of the Tax Court, we shall forego a repetitious analysis of the manner in which the student transactions were processed insofar as they bear upon the tax question. It is sufficient to say that when a contract was entered into with a student, the "deferred income" account was credited with the total contract price. At the close of each fiscal year, the student record cards were analyzed and determination was made of the number of hours of lessons taught which, multiplied by the rate per hour of each contract, gave the amount of income earned. This amount was then charged to "deferred income" and credited to "earned income." Earned income thus arrived at was reported as income on the partnership's tax return. If there was any gain resulting from cancellation of a contract, this amount was also considered as taxable income and reported as such. Detailed schedules which correctly and precisely reflect the result of the partnership's accrual system of accounting during the years in question appear in the findings of fact of the Tax Court.

[fol. 243] The deficiencies under consideration resulted from the Commissioner increasing the ordinary *net* income of the partnership for the fiscal years ending March 31, 1952, 1953 and 1954, by the amount of the increases in the deferred income account in those years, as follows: $24,602.22 in 1952, $104,798.41 in 1953, and $12,797.97 in 1954. This determination was made and upheld by the Tax Court through application of the "claim of right" doctrine, meaning that, for income tax purposes, the full amount of its contract price had to be returned as income in the year in which the contract was entered into, irrespective of any obligation on the part of the partnership to render services under the contract in years subsequent to the year in which the agreement was made.

This case once more brings into sharp focus the question of when income shall be taken into account for tax purposes. Section 41 of the Internal Revenue Code of 1939

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[2] Mertens Law of Federal Income Taxation (Zimet & Stanley Rev.) states, Vol. 2, § 12.01: "The fundamental questions of *when* items become income and *when* items are deductible, despite years of extensive litigation, are still troublesome today."

is the starting point in determining petitioners' "income" for purposes of the internal revenue laws. It directs that net income shall be *computed* on the basis of taxpayer's annual accounting period "in accordance with the method of accounting regularly employed in keeping the books of such taxpayer; but * * * if the method employed does not clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the Commissioner does clearly reflect the income." Section 42 of the 1939 Code sets out the *period* in which items of gross income shall be recognized. It provides:

"The amount of all items of gross income shall be included in the gross income for the taxable year in [fol. 244] which received by the taxpayer, *unless*, under methods of accounting permitted under section 41, any such amounts are to be properly accounted for as of a different period." (Emphasis supplied.)

Regulations issued by the Commissioner reiterate the principle that the accounting methods and computations thereunder are to be made in a manner which will clearly reflect the taxpayer's income.[2]

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[2] Regulations 118, issued under the 1939 Code provide [see Vol. 2, Mertens Law of Federal Income Taxation, § 12.02, p. 9]:

"* * * * The time as of which any item of gross income or any deduction is to be accounted for must be determined in the light of the fundamental rule that the computation shall be made in such a manner as clearly reflects the taxpayer's income. If the method of accounting regularly employed by him in keeping his books clearly reflects his income, it is to be followed with respect to the time as of which items of gross income and deductions are to be accounted for. If the taxpayer does not regularly employ a method of accounting which clearly reflects his income, the computation shall be made in such manner as in the opinion of the Commissioner clearly reflects it.

* * * * *

"It is recognized that no uniform method of accounting can be prescribed for all taxpayers, and the law contemplates that each taxpayer shall adopt such forms and systems of accounting as are in his judgment best suited to his purpose. Each taxpayer is required by law to make a return of his *true income*. He must, therefore, maintain such accounting records as will enable him to do so." (Emphasis supplied.)

As permitted by § 41, the practice of accrual accounting has long been recognized for the purpose of tax accounting. See *United States v. Anderson*, 269 U.S. 422; and 446(c) Internal Revenue Code of 1954. Generally, under such a system, it is contemplated that income, earned but not yet received, is to be reported, with the corresponding accrual of expenses incurred but not yet paid. It is not surprising that considerable litigation has arisen as to the proper treatment to be given specific items in specific instances.

One line of cases has dealt with the problem of *when* income accrues, and in this connection, the so-called "claim [fol. 245] of right" doctrine first made its appearance, apparently in *North American Oil Consolidated v. Burnet*, 286 U.S. 417. In that case, it was conceded that net profits earned by property in receivership during 1916 and paid over in 1917 constituted income. After holding that the income could not be said to have accrued during 1916, inasmuch as there was no constructive receipt of monies, nor right in taxpayer to demand the profits, the court further held that the profits were income for 1917, and not income for the year 1922, the year in which litigation was finally terminated, stating at p. 424:

> "If a taxpayer receives earnings under a claim of right and without restriction as to its disposition, he has received income which he is required to return, even though it may still be claimed that he is not entitled to retain the money, and even though he may still be adjudged liable to restore its equivalent."

The "claim of right" test has been frequently applied, both from the standpoint of determining receipt of income, and of determining the propriety of deduction of expenses or reserves, and as to taxpayers on an accrual basis as well as to those on a cash basis. See and compare, *Brown v. Helvering*, 291 U.S. 193; *Spring City Co. v. Commissioner*, 292 U.S. 182; *Guaranty Trust Co. v. Commissioner*, 303 U.S. 493; *Commissioner v. Hansen*, 360 U.S. 446, 463-468; *Commissioner of Int. Rev. v. Cleveland Trinidad Pav. Co.*, 6 Cir., 62 F.2d 85. Recently, the Supreme Court,

in *Healy v. Commissioner*, 345 U.S. 278, had occasion to apply the test, in holding that cash basis taxpayers are required to report salaries when received although subsequently it was determined excessive salaries had been paid to them. There the Court stated, 345 U.S. at p. 281:

> "Not infrequently, an adverse claimant will contest the right of the recipient to retain money or prop [fol. 246] erty, either in the year of receipt or subsequently. In *North American Oil v. Burnet*, 286 U.S. 417 (1932), we considered whether such uncertainty would result in an amount otherwise includible in income being deferred as reportable income beyond the annual period in which received. That decision established the claim of right doctrine 'now deeply rooted in the federal tax system.' (*United States v. Lewis*, 340 U.S. 590, 592)."

A second line of cases has dealt with the problem from the standpoint of the deductibility of anticipated expenses. See and compare, *United States v. Anderson*, 269 U.S. 422; *Spring City Co. v. Commissioner*, 292 U.S. 182; *McCauley Ward Motor Supply Co. v. Commissioner*, 10 B.T.A. 394; *Capital Warehouse Co. v. Commissioner of Internal Revenue*, 8 Cir., 171 F.2d 395; *Hilinski v. Commissioner of Internal Revenue*, 6 Cir., 237 F.2d 703. From these cases, the rule has evolved that no expense may be accrued and deducted in the absence of a fixed and definite liability for a sum which may be determined with reasonable certainty. Frequently in fixing a strict standard of proof, the courts speak in terms of deductions being a matter of "legislative grace," not a matter of right. See *U. S. v. Olympic Radio & Television*, 349 U.S. 232, 235; *Capital Warehouse Co. v. Commissioner of Internal Rev.*, supra, at p. 397.

There remains yet a third type of situation, typified by that before us—that is, the proper tax treatment of receipts which are in part unearned. It is our view that the concept of "prepaid receipts" requires consideration of factors not present in dealing with concededly "earned income." However, it is apparent from our review of Tax Court decisions, that this distinction has not been made,

and that the Commissioner is unyielding in his position, which, broadly stated, is that all payments actually or constructively received by a taxpayer for future [fol. 247] services, are taxable in the year of receipt without regard to taxpayer's accounting system, and regardless of whether such receipts will be retained or offset by expenses in future years. See *Curtis R. Andrews v. Commissioner*, 23 T.C. 1026, and compare *Consolidated Edison Co. of New York v. United States*, 2 Cir., 279 F.2d 152, petition for certiorari pending, (pre-payment of tax not yet accrued). On the other hand, it is apparent that taxpayers have frequently found it difficult to obtain the Commissioner's approval of reserves set up and designed to offset the expenses of earning such income. See and compare, *Capital Warehouse Co. v. Commissioner of Internal Rev.*, supra, 171 F.2d 395; *Hilinski v. Commissioner of Internal Revenue*, supra, 237 F.2d at p. 704. It is our view that the decision in the case before us does not turn solely on the question of whether petitioners had the right to receive or keep the amounts of tuition designated in the contracts for lessons. The real question is whether petitioners' system of accounting reflected their true income. The Tax Court made no finding that it did not. The effect of the Commissioner's adherence to and application of the claim of right test here is to place petitioners on a cash basis as to income, irrespective of the fact that their books are kept on an accrual basis. It must be remembered that accrual accounting has been approved for the purpose of tax accounting. In the oft-cited case of *United States v. Anderson*, [fol. 248] supra, the Supreme Court discussed the

"It is not reasonable under these circumstances to compel the petitioners to accrue income and at the same time refuse to allow them to accrue the liability incurred in the production of that income."

Petitioners have argued with some persuasion that the "claim of right" doctrine will not extend to portions of the installment contracts not due or payable until a later year. Furthermore, as noted, the Tax Court found that petitioners' past experience indicated that a large portion of the sales would be cancelled. As to ownership of the reserves held by the bank, see and compare *Commissioner v. Hansen*, 360 U.S. 446. Because of our disposition of the case, it is not necessary to decide these issues.

purpose of §§ 12(a) and 13(d) of the Revenue Act of 1916 (provisions similar to §§ 41, 42) in this language at p. 440 of 269 U.S.:

> "It was to enable taxpayers to keep their books and make their returns according to scientific accounting principles, by charging against income earned during the taxable period, the expenses incurred in and properly attributable to the process of earning income during that period; and indeed, to require the tax return to be made on that basis, if the taxpayer failed or was unable to make the return on a strict receipts and disbursements basis."

See also *United States v. Mitchell*, 271 U.S. 9, 12, 13; *Healy v. Commissioner*, 345 U.S. 278, 281; *Hilinski v. Commissioner of Internal Revenue*, supra, at p. 704; and *Beacon Publishing Co. v. Commissioner of Internal Rev.*, 10 Cir., 218 F.2d 697, 699, where this pertinent statement appears: "The obvious purpose of these provisions (appearing in §§ 41 and 42) is to obtain from the taxpayer a return reflecting its true income and to treat income received and deductible disbursements consistently. *United States v. Mitchell*, 271 U.S. 9, 12, 46 S.Ct. 418, 70 L.Ed. 799."

In *Beacon Publishing Co. v. Commissioner of Internal Rev.*, supra; *Bayshore Gardens, Inc. v. C.I.R.*, 2 Cir., 267 F.2d 55, and *Bressner Radio, Inc. v. C.I.R.*, 2 Cir., 267 F.2d 520, the courts effectuated the purpose of these provisions and reversed the Tax Court on the identical position here advanced, the holding being that it was proper under the accrual method of accounting to defer prepaid receipts. The courts have also recognized a corol- [fol. 249] lary to the foregoing rule, that is, when the accrual method of accounting is employed, it is proper under appropriate circumstances to set up a reserve in the year of receipt to meet the expenses attributable to the income. See *Pacific Grape Prod. Co. v. Commissioner of Int. Rev.*, 9

It is significant that the language of § 41 is directed to net income, which necessarily contemplates the matching of receipts and expenses.

Cir., 219 F.2d 862; *Schuessler v. Commissioner of Internal Revenue*, 5 Cir., 230 F.2d 722;[5] *Harrold v. Commissioner of Internal Revenue*, 4 Cir., 192 F.2d 1002; *Hilinski v. Commissioner of Internal Revenue*, 6 Cir., 237 F.2d 703; *Denise Coal Company v. Commissioner*, 3 Cir., 271 F.2d 930. However, where there is a mere contingent liability to make refunds in the following year or doubt as to actual services to be performed, reserves may not be deducted. *Beacon v. Helvering*, supra, at pp. 199-202; *Security Mills Co. v. Commissioner*, 321 U.S. 281, 284; *Whitaker v. Commissioner of Internal Revenue*, 5 Cir., 259 F.2d 379, at 382, 384, and cf. *Capital Warehouse Co. v. Commissioner of Internal Rev.*, 8 Cir., 171 F.2d 395.

Many of the decisions relied upon by the Commissioner concerned fully executed contracts and concededly earned income. This factor has been treated to considerable discussion by many courts in arriving at their conclusions. See *D[illegible] v. Commissioner of Internal Revenue*, 2 Cir., 110 F.2d 157, cert. den. 311 U.S. 658; *Denise Coal Company v. C.I.R.*, 3 Cir., 271 F.2d 930; *Baird v. Commissioner of Internal Revenue*, 7 Cir., 256 F.2d 918, 924, aff'd. *Commissioner v. Hansen*, 360 U.S. 446; *Universal Oil Products Co. v. Campbell*, 7 Cir., 181 F.2d 451, 469, 472, cert. den. 340 U.S. 850 (pointing out that an agreement for services had been fully performed); and *Whitaker v. Commissioner of Internal Revenue*, 5 Cir., 259 F.2d 379, 384.

On the facts we have a case closely analogous to *Beacon Publishing Co. v. Commissioner of Internal Rev.*, supra;

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[5] In *Schuessler v. Commissioner of Internal Revenue*, supra, the Court in discussing deductibility of anticipated expenses observed, 230 F.2d at p. 724:

> "The decisions of the Tax Court and of the several Courts of Appeals are not uniform on this subject, some circuits requiring a mathematical certainty as to the exact amount of the future expenditures that cannot be satisfied in the usual case. Other circuits, seemingly more concerned with the underlying principle of charging to each year's income reasonably ascertainable future expenses necessary to earn or retain the income, have permitted the accrual of restricted items of future expenses. Two of this latter category are *Harrold v. Commissioner* and *Pacific Grape Products Co. v. Commissioner*."

Bressner Radio, Inc. v. C.I.R., supra, and *Bauchner Gardens, Inc. v. C.I.R.*, supra, and on principle one that is identical with those cases. In *Bressner*, the Second Circuit, in a well reasoned, sound and exhaustive opinion, deals with all facets of the question. In our view, it is not only apposite but persuasive.

Even assuming arguendo that petitioners received cash payment in full at the time of contracting, the receipt of the funds could not be considered to be *earned* until petitioners had discharged their liabilities under the contract. Under their method of accounting, established when the partnership was formed and continually employed thereafter,[8] petitioners reported as income in their tax returns such portion of the total amount received, as under their system of accounting had been earned, deferring the remainder of the amount received for inclusion in the year or years in which the remainder of their liability was discharged. Such system seems eminently designed to reflect true income.

[fol. 251] Manifestly, *Automobile Club of Michigan v. Commissioner*, 353 U.S. 180, the only case in which the Supreme Court considered on the merits the question of the propriety of deferring prepaid funds, is distinguishable and therefore not controlling. Although the Tax Court in that case applied the claim of right doctrine to disallow the deferral of unearned receipts, 20 T.C. 1033, aff'd. sub nom *Automobile Club of Mich. v. Commissioner of Int. Rev.*, 6 Cir., 230 F.2d 585, 591, this question was not reached, for the Supreme Court delineated the issues and based its decision on the narrow ground that the *particular method* of deferral employed by the Club was unsatisfactory. The Court found that "... the pro rata allocation of membership dues in monthly amounts is purely artificial and bears no relation to the services which petitioner may

[8] This is not a situation where taxpayers are attempting to change their method of accounting. See *Brown v. Helvering*, 291 U.S. 193; *United States v. Anderson*, 269 U.S. 422; *Beacon Publishing Co. v. Commissioner of Internal Rev.*, supra, at pp. 701-702. "The qualified experts testified that the system ... true income [illegible]

in fact be called upon to render for the product." 352 F.2d at p. 184. The Court distinguished *Bressner Radio, Inc. v. Commissioner of Internal Revenue*, supra, and *Schuessler v. Commissioner of Internal Revenue*, supra, on their facts, expressing no opinion upon the correctness of those decisions.

The facts before us are distinguishable. Here, petitioners' obligation to provide services subsequent to the tax year was fixed, definite and certain, thereby effectively rebutting any contention that petitioners' method of deferral was purely artificial. The system and method of accounting on an accrual basis with the deferral of income so that it could be closely matched to the corresponding expenses was designed to clearly reflect petitioners' true income within the meaning of the applicable statutes and regulations. As pointed out in the *Bressner* and *Schuessler* cases, any other method would result in a distortion of true income. Compare, *Waldheim Realty* [illegible] 252 [illegible] *v. Commissioner of Int. Rev.*, [illegible] 245 F.2d 823, ruling that accrual basis taxpayer was entitled to deduct *prepaid expenses* of insurance premiums in the year paid against the Commissioner's contention that the cost thereof must be prorated over the term of the policy. This court observed, at p. 825, "To require the taxpayer to treat its insurance payments upon an accrual basis would, as the Supreme Court states in *Security Flour Mills Co.*, supra, create a hybrid and inconsistent method of accounting not properly to be denominated either a cash or accrual system."

Neither do we regard *Capital Warehouse Co. v. Commissioner of Internal Revenue*, supra, as apposite, authority notwithstanding. In that case the crucial question was whether the taxpayer could, for the tax year involved, exclude from its gross income that portion thereof which it had set aside on its books as a reserve fund to cover a contractual liability. As we understand the opinion, the taxpayer was denied the deduction because the amount which [illegible] in the reserve account was not [illegible]

It is our view that the recent decision of the Seventh Circuit in *Streight Radio and Television, Inc. v. Commissioner*, — F.2d —, decided July 28, 1960, and affirming the Tax Court, is analogous to the *Automobile Club of Michigan* holding, being based upon a finding that taxpayer's system of deferring income attributable to future services was arbitrary and without proper foundation. In referring to the decision of the Tax Court in the *Streight* case, 33 T.C. No. 15, at p. 11, we observe that that court found that the taxpayer had "failed to prove that the method of deferral used bore any significant relation to the services to be performed."

[fol. 253] Even indulging the assumption that petitioners came into possession of the monetary amount of the contracts when executed within the contemplation of the claim of right doctrine, we are satisfied that to apply the doctrine to petitioners' operation, without regard to its accrual system of accounting, would result in emasculation of the law long recognized, which affords taxpayers the right "to keep their books and make their returns according to scientific accounting principles, by charging against income earned during the taxable period, the expenses incurred in and properly attributable to the process of earning income during that period." *United States v. Anderson*, supra, 269 U.S. at p. 440.

On this record we must hold that there is no showing that the method of accounting employed by taxpayers did not clearly reflect income, and consequently there is no basis for the Commissioner to adopt a method of his own. Accordingly, the decision of the Tax Court is

Reversed.

Woodrough, Circuit Judge, dissenting.

This Court twelve years ago considered the question that is the crux of the presently involved controversy in the case of *Capital Warehouse Co., Inc. v. Commissioner of Internal Revenue*, (C.A. 8, 1948) 171 F.2d 395.

In that case the taxpayer sought to exclude from its gross income that portion thereof which it had set aside on its books as a reserve to cover its contractual liabilities to its customers to remove merchandise from its [fol. 254] warehouse at the end of its storage period. The Tax Court held that the Commissioner rightfully refused to uphold the exclusion. We affirmed the decision of the Tax Court. Although other Courts of Appeals have since reached contrary conclusions, I would adhere to our former decision and affirm the Tax Court in this case.

I, Robert C. Tucker, Clerk, United States Court of Appeals for the 8th Circuit, do hereby certify that the foregoing is a true and complete copy of the opinion of this Court filed Oct. 19, 1960, but withdrawn by order of this Court of December 15, 1961, after remand of this case by the Supreme Court of the United States for further proceedings.

In Testimony Whereof, I hereunto subscribe my name and affix the seal of the United States Court of Appeals for the Eighth Circuit, at office in the City of St. Louis, Missouri, this 1st day of June, A. D. 1962.

Robert C. Tucker, Clerk, U.S. Court of Appeals for the Eighth Circuit.

(Seal)